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## **BRANCH ACCOUNTING: EVIDENCE FROM THE ACCOUNTING RECORDS OF THE NORTH AMERICAN MORAVIANS**

*Abstract:* Europeans transported continental accounting practices during the period of worldwide colonization. This paper describes the transportation of branch accounting by members of the Moravian Church. Physical records maintained in the Archives for the Southern Province of the Moravian Church at Salem, North Carolina, and for the Northern Province at Bethlehem, Pennsylvania, contain a complex, two-tiered system of branch accounting for the enterprises within the settlements and the settlements within the worldwide Church. This paper traces recorded activity for 1775 from an enterprise to its diacony (business organization of a church) and from the diacony to the European Church headquarters. Reporting practices in both North American diaconies reflect a similar practice of branch accounting, each culminating in formal financial statements to the European "home office" of the Moravian Church.

**Many is the long winter evening that I have passed  
in the wigwams of the Delawares, listening to the  
good Moravians . . .**

Today, over a century and a half since James Fenimore Cooper made this reference to the Moravians in *The Prairie*, the average scholar is perhaps only slightly familiar with the history of the Moravians. By consulting the bookkeeping records left behind by the Moravian settlers, accounting scholars will gain a greater understanding of accounting practices transported to

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the United States from Europe prior to the Revolutionary War, specifically the concept of branch accounting.

The purpose of this paper is to examine the well-developed system of accounting maintained by the North American Moravians in the late eighteenth century and to relate the method to modern branch accounting. The results of this research indicate that the Moravians employed a two-tiered system of branch accounting that incorporated elements of the equity method of accounting for investments as early as 1774. Additionally, the accounting records provide evidence of the Moravians' willingness to use profit incentives when required to encourage development of needed business enterprises within this church-centered community.

This paper is organized as follows. First, a history of the Moravians is presented to provide the context in which the branch accounting system was developed. Second, the nature of modern branch accounting is briefly described as a basis for comparison with the Moravian system. Finally, a comparison is made between modern branch accounting and the practices evident in the Moravian records and financial statements. Evidence of the practice has been gathered from the accounting records of two North American branches: Salem, North Carolina, and Bethlehem, Pennsylvania. The activity in one enterprise for the year 1775, the saw mill in the North Carolina settlement, is traced through two tiers of branch accounting, culminating in formal statements to European Church headquarters. In the first tier, the enterprise reports to its home office, the diacony; in the second tier, the diacony reports the same activity in financial statements to the European home office.

### A BRIEF HISTORY OF THE MORAVIANS

Except for a few pre-reformation groups which were never classified as churches, the Moravian Church can be called the oldest of the Protestant churches [Groenfeldt, 1954]. Like the Shakers during the eighteenth century [see Kreiser and Dare, 1986], the Moravians were a communal society composed of hard-working and industrious members. A Moravian settlement consisted normally of a village, the inhabitants of which belonged without exception to the Church. An inn, general store, mill, smith, tannery, and possibly other industries were carried on as church undertakings. Unlike the Shakers, the Moravians

eventually dropped their communal ways and today have a membership of approximately 55,000 members [Durnbaugh, p. 3]. Both groups had an interest in maintaining good accounting records.

The following is a brief chronology of the events in Moravian history prior and subsequent to the routine transactions described on subsequent pages:

PERIOD	EVENT
1735-1770	Moravian communal settlements founded in Georgia, Pennsylvania, Ohio, and North Carolina.
1774	Branch accounting records prepared by the Salem colony are forwarded to European Home Office (as are similar reports in Bethlehem, the seat of the Northern Province).
1800s	Movement away from Moravian communal societies.
1980s	55,000 Moravian members in 156 congregations. Extensive archives maintained in historic Bethlehem and Winston-Salem settlements.

### *The Moravians As Record-Keepers*

Historic records at the Salem and Bethlehem Archives contain detailed information concerning daily life, travel, and events in Europe, the Southern Province centered in Salem, North Carolina, and the Northern Province centered in Bethlehem, Pennsylvania. Apart from their personal interests, letters contain advice asked and given, negotiations for the filling of various offices, and the general details of life. These details are mirrored in the *Memorabilia* and *Diaries of Wachovia*, translated from German and published by the North Carolina Historical Commission. The Moravians have a history of recording the written word: of the sixty volumes printed in Bohemia between 1505 and 1510, fifty had been produced by Moravian printing presses [Fries and Pfohl, 1926]. Possessing a strong commitment to reporting financial details, it is not unusual for personal diaries to include detailed expense accounts of the author's travels, budgets, and the reports of daily commercial transactions, including the daily wage of employees and the appraisal value of properties.

The majority of enterprises in the Northern Province were

owned by the Church; the majority of enterprises in the Southern Province were owned by Church members who shared a profit ratio with the Church. Carved out of the Southern wilderness from a 100,000 acre land grant by Lord Granville, the Southern Province was probably more willing to share profit with Church members in order to attract membership. Other than reflecting the difference in the ownership arrangements, accounting records for both provinces were maintained essentially in the same manner.

### THE NATURE OF MODERN BRANCH ACCOUNTING

The following description of modern branch accounting is provided as a basis for comparing the eighteenth century practices with modern branch accounting. A large firm may divide itself into separate reporting units for internal management purposes, using the separate statements of these units to provide information needed for decentralized decision making [Fischer, Taylor and Leer, 1990]. Typically, the home office will keep a perpetual record of its investment in a branch office. The investment account is increased by:

1. The original funds given to the branch to start operations,
2. Subsequent advances by the home office,
3. Billings for merchandise and other assets provided to the branch, and
4. Equity-method adjustments for income reported by the branch.

The branch usually accounts for its operations as if it were a separate entity. It records its own purchases, sales, asset acquisitions, and expenses. The branch closes operating income to the home office equity account, and the home office increases its investment-in-branch account by the amount of operating income. Some systems will allocate home office expenses to the various branches.

#### *Antecedents of Branch Accounting*

Historical references to the practice of branch accounting exist in both record and textbook form. Venetian banks in the fourteenth century maintained a form of branch accounting. One century later Paciolo [1494] devoted one chapter in his *Summa* (Chapter 23) to its description. However, these early

references to “branches” are not unlike the bookkeeping methods maintained for multiple receivables in stores [Chatfield, 1977, p. 48].

The oldest known Venetian accounts are contained in two ledgers of Donaldo Soranzo and Brothers, merchants [Chatfield, 1977, pp. 36-37]. One of these (1410-1418) employs a partial double-entry system in which every debit has a credit and merchandise accounts are closed to profit and loss, but profit and loss accounts are not combined and transferred to capital. A complete double entry system is used in the second ledger. Both systems grapple rather unsuccessfully with the problem of coordinating home office and overseas venture accounts.

During the fifteenth century, Paciolo's treatise made its progress through the commercial world. According to Fogo [1968], the celebrated and historic treatises on bookkeeping are very numerous but not as pointed as accounts drawn from practice in tracing the development of accounting. The bookkeeping methods described by two early German authors appear to be less influenced by Italian teaching: Heinrich Schreiber, a native of Erfurt, who Latinized his name as Henricus Grammteus, and Johann Gottlieb, a merchant of Nuremberg. Gottlieb is by far the most successful of the two [Fogo, 1968, pp. 122-123]. He had the advantage of practical knowledge of his subject, and his textbook explanations are clear. As bookkeeping passed out of the experimental stage, it was daily experience, such as Gottlieb's in the counting-house, that initiated improvements.

The scholastic theory expressed in the early Italian treatises was soon surpassed by developments in practice. It is in the German Hanse towns that the best bookkeeping was found in the seventeenth century. Schurtz (Nuremberg, 1695) instructs by examples of time-honored books but adds in his textbook's preface that developments in the counting-houses are used with great success [Fogo, 1968, p. 142]. It is in Schurtz's work that a complete system, including closing entries and a final balance, is first encountered [Fogo, 1968, p. 143].

#### BRANCH ACCOUNTING IN THE MORAVIAN SETTLEMENTS IN 1775

The well-developed Moravian Church system probably resulted from many factors, including the Moravian sense of business and orderliness and penchant for detailed recordkeeping. It is therefore not surprising that one of the earliest developed

branch accounting systems can trace its origins to German descendants utilizing the method in daily life. The Bethlehem archives contain a handwritten manual by Christian F. Oueter. The manual, written in Oueter's native German and later translated to English, describes the accounting practices in the Northern Province of the United States as being English in origin with some Italian influence. The records themselves bear out Oueter's declaration of origin.

The terms "Ballance" (Balance) and Folio (Account) in the Moravian ledgers derive from European influence. Both terms are defined by R. Colinson in *IDEA RATIONARIA*, the "True Forme of Bookkeeping According to the 'Italian' Methode," [1683]. Many of the physical characteristics follow the form prescribed by Colinson [1683], such as:

1. The large title on the top of each page accompanied only by the notation of the year (not month or day).
2. The debits and credits recorded separately on facing pages.
3. The division of each page horizontally into large and small areas to accommodate the size of the account, and
4. The cross-referencing of the folio when transporting information from the journal to the ledger.

Although earlier German accounting ledgers label the reference column by "Ch" for *Charta, Pagina*, by 1682, the term "Folio" was in use [Rademann, 1682]. The use of the description area to list the details of subtotals is also typical of this era [Hager, 1660] as is the use of the word "Ditto" or "Detto" in recording succeeding repetitive entries [Schurtz, 1662]. These recording practices have been transported and are evident in the Moravian records.

The transactions, of course, are valued in English currency, shillings, and pence. Debit and credit column headings are abbreviated simply as "Dr." and "Cr.," respectively.

The historic ledger for the Diacony of Wachovia is contained in a bound volume. Similar to the present day concept of "Branch Accounting," the ledger for the "home office" of the Diacony includes separate accounts for each of the typical operative enterprises. These separate accounts exhibit characteristics of branch accounts. "Folio No. 39" is used by the Diacony to record profit and loss for each of its branches. There is no evidence that the expenses of the home office are allocated to the enterprises, a practice sometimes applied in modern branch accounting.

The entries for the branch mill at Salem will serve as the beginning point for the illustration of the two-tiered system of branch accounting. The results of operation for 1775 for the mill will be traced through the ledger of the Diacony to the formal financial statement, prepared in German and submitted to the home office. Figure 1 is a section of a page from the journal for the Mill enterprise at Salem. Like other enterprises in the southern Moravian settlement, the mill owner shared the profit with the Church. The branch mill computed profit for the period ended April 1775 of £ 39.2.6. Three-fourths of this amount represented the Diacony's share (£ 29.6.11); one-fourth (£ 9.15.7) Mr. Steiner's, the proprietor.

**Figure 1**  
**Journal for Mill Below Salem (1773-1785)**  
**Allocation of Profit, April 1775**

7	Toll Account D. <sup>r</sup> To Profit & Loss £4. 1. 8		
19	for one Years Interest & Quit Rent of 100 Acres of Land, as above	4. 1. 8	
	ditto		
11	Jacob Steiner D. <sup>r</sup> To Cash £1. 6. 7		
9	for an Undercredit of Cash Account	1. 6. 7	
	ditto		
19	Sundry <sup>(2.)</sup> Accounts D. <sup>r</sup> To Profit & Loss £39. 2. 6		
11	Jacob Steiner, for one fourth part of £39. 2. 6. of the clean Profit this Year, coming to him	9. 15. 7	
1	Salem Congregation Diacony, for the other three fourth part of ditto, as above	29. 6. 11	
		<u>£39. 2. 6.</u>	



Figure 2 is a page from the ledger for the Diacony which records the £ 29.6.11, the Diacony's three-quarter share of mill profit (fifth entry of second section).

**Figure 2**  
**Ledger for Salem Diacony (1772-1780)**  
**Mill Branch Account**

1773		1774	
April 30	To Diacony of Administration, for three fourth parts of said Mill, bearing Inters <sup>t</sup> from this Day	1.	9.00
1774	To Interest of £900. for one Year, due this Day	24	15
	To Diacony of Administration, for one Year Interest of 100 to the said, noted 473 and the 16th inst 1774	13	12
	To ditto, for one Year Interest of ditto, due ditto	9	8
	To ditto, for the Mill Full from the, due ditto	5	—
	To Bethabara Diacony, for Boards, Laths & Carriage	42	7.12.6
	To Profit & Loss, for the neat Profit of the Mill, the Year, 1773	39	15.10.7
			<u>£1007. 4. 9</u>
	To Balance of the above Account, on		
	To the three fourth parts of said Mill, bearing Inters <sup>t</sup> from this Day		£900. —
	on Annual Current	62	4. 9
1775	To the Diacony of Administration, for Interest	3	9. 1. 8
	of said Mill, for the Mill working Journal	2	—
	To one Year Interest of £900. — for one Year due this Day	24	15
	To ditto of Int <sup>r</sup> & L <sup>o</sup> on the Mill on ditto	24	15. 4
	To Profit & Loss, for three fourth parts of £39. 2. 6. of the clean Profit this Year	39	2. 6. 11
	To Store at Allen & Bethabara, for the Balance of sundry laid out to this Day	7	36. 8. 4
	To Bethabara Diacony for Boards, Planks & Laths	42	7. 15. 4
			<u>£1102. 11. 4</u>
1780	To Balance of the above Account, bearing Inters <sup>t</sup> from this Day	103A	2. 11
1778	To Cash, paid to Jacob Steiner in full of his private account with the United Administration	26	6. 19. 1
	To Cash, paid to George Schmidt in full of his account	26	3. 5. 2
	To Cash, paid for Carriage for Bottling Cloth from York town	26	— 4
	To Cash, paid for Carriage to the Mill & for the Head shed	35	15. 9. 6
	To Cash, paid for ditto &c. for the New Mill	26	21. 1. 9
1776	To Cash, paid for 2 Bottling Cloth, for the Flax Mill	27	26. 5. 10
	To Cash, paid for 1000 Pounds for making a Draught for the New Mill & getting the Head erected	27	1. 17. 6
	To Cash advanced to the Steiner	27	1. 10
	To Cash paid for 2 Cask Laths, for the Toll Trunks	27	— 6
	To Cash paid for 2 Cask Laths, for the Toll Trunks	27	8. 12. 5
	To Cash paid to Jacob Steiner on his private acc <sup>t</sup>	27	3. 3. 6
1777	To Cash paid for sundries for the Flax Mill, on Journal	27	3. 17. 6
	To Cash paid for ditto for the Flax Mill, ditto	27	2. 17. 1
	To Cash paid for Lockmaking Work for the Repair of the Mill	27	— 17. 4
	To Allen & Bethabara Store, for Sundries, which they had sent	87	18. 19. 4
	To the Diacony of Administration, for Interest, Inters <sup>t</sup> on	2	9. 1. 8
	of the Mill, for the 16th inst 1774, due the 16th inst	13	6. 1. 8
	To ditto, for the 16th inst 1774, due the 16th inst	42	—
	To Bethabara Diacony, for Boards, Planks, & Laths	35	15
	To ditto, for the Boards, for said Mill	35	15
	To Rent & Interest, on said Capital for one Year, due this Day	39	19. 1. 6
	To ditto, of £900. 9. 1. Stock in the Mill for 1 Year, ditto	39	19. 1. 6
	To Profit & Loss, for three fourth parts of £25. 12. 8. of the clean Profit this Year	39	19. 1. 6

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The Salem Diacony increases its asset accounts by the amount of profit reported by the mill branch. Going on to compute the "balanz" as recommended by Schurtz [1662], the Diacony computes a balance of £ 1054.2.11 (first entry in the third section of Figure 2). This same computation appears in the ledger for the mill in Figure 3.

Figure 3

**Ledger (Debit Side) for the Mill Below Salem (1772-1790)  
Computation Identical in Ledger for the Diacony**

*Salem Congregation Diacony Debet*

1775			
Feb 10	To Christoph Merkly, for received of him of J. G. Springman	16	14 8.
April 21	To Sold Account, for part of 46 Bush. Grain for sale as per Journal -----	1	13 9
	Ballance carried to new Account -----	1054	2 11
		£ 1102 11 4	

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This balance of £ 1054.2.11 is reported as the second entry in the set of formal financial statements prepared in German "Die Gemein-Diaconie in Salem hat am 30 sten. April 1775," presented in Figure 4.



In addition to the above-described approach of equity-method adjustments for income reported by the mill branch, the ledger for the Salem Diacony (the Church business organization) records the original investment of 900 pounds by the branch in the home office as well as a charge for assets advanced to the branch, "planks and laths 17.15.4." (See Figure 2.) All four characteristics of modern branch accounting are therefore found in the Church records. The investment account has been debited for the following:

1. The original funds given to the branch by the home office to start operations (£ 900, Entry 1, Lines 1 and 2 in Figure 2). Providing an excellent example of reciprocity between accounts, the mill had credited its accounts for the 900 pounds advanced by the Diacony home office (£ 900, Line 1 in Figure 5).

Figure 5

Ledger (Credit Side) for the Mill Below Salem (1773-1785)  
Showing Contributed Capital from Home Office

1773 Salem Congregation Diacony £			
May 1	By Mill Building, for said Diacony's share in the same	900	0
1774	in the form of £1200		
Apr 30	By Ditto, for Interest of 100 Acres Land belonging to the Mill, for 1 Year, due 16 <sup>th</sup> inst.	£3	12
	for one Year Rent thereof due Ditto	9	8
	for the Mill Fall for one Year, due Ditto	5	0
	By Toll Account, for said Diacony's three fourth part in the Remaining £56.10. of a s <sup>y</sup> Journal	12	14
	By Cash, for one half of £3.12.2. for thus much Overplus arising from the Sale of Grain	2	16
	By Mill Building, for Boards, Laths & Carriage from Bethabara	7	12
1775			
Apr 21	By Salem Store, for a Charge the 8 <sup>th</sup> inst.	£9	62
	By Toll Account, for one Years Interest of the Inventory of £51. 8. 4. due this Day	2	14
	By Profit & Loss for one Years Interest of £900, due this Day	15	0
	By Ditto, for one Years Rent of the Land & Mill Fall	9	1
	By Profit & Loss, for three fourth part of £39. 2. 6. of the Clean Profit this Year	29	6
	By Mill Building, for Boards, Planks & Laths from Bethabara	17	15
		£102	11
		4	

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2. Billings for merchandise and other assets provided to the branch by the home office (£ 17.15.4 for planks and laths, Entry 12, Line 22, before second subtotal in Figure 2, and £ 62.4.9 as interest on the funds advanced).
3. Equity-method adjustments for income reported by the branch (£ 29.6.11, Entry 10, Lines 18 and 19 also in Figure 2).

### SUMMARY

The Moravian accounting records included in this paper provide evidence of the well-developed systems that evolved in practice and were transported to the American colonies through European settlers. Specifically, evidence is provided that the Moravian settlers transported the practice of branch accounting to their settlements in the United States. The method reflects most of the current practices in modern branch accounting, including equity method adjustments.

It is also noteworthy that the Moravian practice was a global method of branch accounting. The Church used the method to account for its international operations. In North America, the systems used to account for the operations at Bethlehem, Pennsylvania, and Salem, North Carolina, were essentially the same. However, the economic system for the Southern Province frequently included incentives to attract membership.

Specifically, the majority of enterprises in the Southern Province were owned by members. The members paid interest on capital stock, house and ground rents, and a proportionate share of profit to the Diacony. The contributions of the various enterprises were determined at an annual meeting of the membership of the Board of the Diacony. Of the total profit of £ 39.2.6 from the Saw Mill operations at Salem for the year ended April 1775, Jacob Steiner, the proprietor received one-fourth of the profit (£ 9.15.7). The complement (three-fourth's paid to the Diacony) has been traced previously in Figures 1 through 5, providing an example of early branch accounting methods transported to the United States from Europe.

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