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ACCOUNTING HISTORIANS JOURNAL

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HISTORICAL EVOLUTION OF THE BALANCE SHEET IN THE PEOPLE'S REPUBLIC OF CHINA

Abstract: This paper exhibits the historical evolution of the balance sheet in the People's Republic of China. In particular, we examine three major changes in the balance sheet (which reports the financial position of an economic or business entity) since the founding of the new China in 1949 and the political, social and economic changes during this period. The content, structure and presentation of the balance sheet (or alternative forms of the statement in use) are illustrated. The political and economic factors driving its evolution are analyzed to assist readers in understanding the rapid changes in Chinese accounting over the last six decades. The implications of the Chinese experience for international accounting convergence are also briefly outlined.
Keywords: Balance sheet, Statement of financial position, Chinese accounting, financial reporting, Economic reforms in China.

INTRODUCTION

The balance sheet is the first financial statement in contemporary accounting and portrays the financial position of an economic and business entity on the reporting date.[1] The appearance of this statement can be traced to the birth of double-entry

[1] This financial statement has been officially renamed the *statement of financial position* since January 1, 2009, after the International Accounting Standards Board (IASB) amended International Accounting Standard No. 1 (IAS 1)—*Financial Statements Presentation* in September 2007. However, it is still widely called the *balance sheet* in accounting practices around the world.

bookkeeping in Venice, Italy in the fifteenth century [Littleton, 1933].[2] According to Chatfield [1977, p.68], balance sheet came by the way of listing all debit and credit balances in the ledgers. However, the statement specifically originated from the mandatory, periodic inventory of accounts in the seventeenth century in the European Continent.[3] Littleton [1933] claims that the statement initially served the purposes of property tax levy and bankruptcy procedures by providing an overview of an entity to the latest statement date. After the Industrial Revolution in Europe (in the eighteenth and nineteenth centuries), business entities grew dramatically, from small crafts and production workshops to large-scale corporations with more owners and creditors (capital providers) to accommodate the growth in social productivity and market demands.[4]

The emergence of modern business corporations (e.g., joint stock companies) with separate ownership and management has expanded the number of parties with an interest in a particular business enterprise as firms need to raise capital from external investors and creditors and comply with more complicated market regulations. Therefore, externally oriented financial reporting became an obligation for business enterprises in presenting their resources, obligations, and net worth at regular intervals for the purposes of protecting the interests of capital providers and discharging the stewardship of the management [Chatfield, 1977]. As a result, the statement serves as one of the primary financial statements in most countries worldwide. The balance sheet has long been a tool for external capital providers to assess

***Acknowledgement*:** The authors are grateful to two anonymous reviewers and Professor Gloria Vollmers, the Journal's editor, for their insightful comments and valuable suggestions. Their contributions and support optimized this work and are sincerely acknowledged. Any remaining errors are ours.

[2] Also see Chatfield, M. [1977], *A History of Accounting Thought*, Huntington, NY: Robert E. Krieger Publishing Company.

[3] According to American accounting historian, Littleton, A.C. [1933], early forms of the balance sheet date back to the trial balance (the balanced accounts) used in the fifteenth century in double-entry bookkeeping practices in Italy and the French Ordinance of 1673 that required merchants to make an "inventory" every two years of all of their fixed and movable properties and of their debts receivable and payable.

[4] However, the balance sheet used nowadays is derived mainly from the British practice of financial reporting for joint stock companies in the late eighteenth century after the Industrial Revolution. It became a mandatory financial statement under the Company Act of 1844 in the UK. This practice was adopted in financial reporting in other countries later on.

liquidity/solvency and asset valuation of a firm [Paton and Littleton, 1940].

Although there has been no substantial change in the structure and content of the balance sheet over the past centuries, the Financial Accounting Standards Board (FASB) in the United States and the International Accounting Standards Board (IASB) have jointly initiated some changes in regards to this basic financial statement in recent years, to improve financial reporting quality and promote the international convergence of financial accounting standards and practices [IASB and FASB, 2008]. Not only has the statement been formally retitled as the Statement of Financial Position, but there are also significant amendments proposed to its structure and presentation format, such as inclusion of multiple sections to present assets and claims under segregated classifications of operating, investing and financing activities, income taxes and discontinued operations [IASB, 2008].[5] The main rationale behind the proposed changes is to enhance the cohesiveness of financial statement articulation and add disaggregated information to assist external users' decision making [IFRSF, 2010].

Nonetheless, the initial efforts of the IASB and FASB to remodel primary financial statements have invoked accounting scholars and practitioners around the world to reconsider the objectives of financial reporting and the rationale for potential changes in the structure and usage of financial statements [AAA, 2010]. Even in less-developed countries like China, where accounting is undergoing a significant convergence with international accounting norms, discussions about the changes are taking place. Chinese accounting has gone through dramatic changes since the People's Republic was founded in 1949 in pace with revolutionary changes in the country's political, social and economic environments. Even the official financial statements to be prepared by business enterprises have been substantially remodeled several times in their content and presentation structure. Thus, this paper presents a review of the evolution of the balance sheet in China within the context of the reforms of Chinese accounting during this period. We highlight the political, social and economic factors driving these changes, and the substantial changes in the balance sheet (both its content and pre-

[5] IASB and FASB jointly issued *Preliminary Views on Financial Statement Presentation* on October 16, 2008, and another staff draft was released in 2010 for public consultation and comments, proposing dramatic changes to the existing structure of the primary financial statements [IFRSF, 2010].

sentation format) at different phases of accounting development in the country. It is argued that such a historical review should facilitate understanding of Chinese accounting development in the past decades and of future moves in Chinese accounting in light of international accounting convergence. The lessons derived from the Chinese experience may also be relevant to current debates on the potential amendments to the presentation of this financial statement as proposed by the FASB and IASB.[6]

The paper is structured as follows. A brief review of the early use of the balance sheet in China is first presented. Three major reforms to the balance sheet, including the purposes, influential factors, and specific presentation formats of this financial statement in three major phases of Chinese economic growth and accounting development are discussed. The paper concludes with a brief discussion on the proposed changes to the presentation of primary financial statements by international accounting standards setters from the perspective of China's experience.

EARLY USE OF THE BALANCE SHEET IN CHINA

According to historical studies of contemporary accounting, the balance sheet originated in the West, derived from the balance of accounts procedure in double-entry bookkeeping. It evolved to the mandatory primary financial statement in business sectors, particularly since the Industrial Revolution in Europe in the eighteenth century [Littleton, 1933; Chatfield, 1977]. Generally speaking, the balance sheet presentation (i.e., its content and format) is associated with the progress of financial reporting objectives [IASB, 2008]. As corporations increasingly rely upon external sources for business financing, they must demonstrate the resources (assets) and obligations (liabilities) to show their net worth (owners' equity) at a particular point of time for the purposes of discharging the management's stewardship and to demonstrate their surviving capacities (e.g., liquidity and solvency), which will assist external capital providers make rational decisions [Paton and Littleton, 1940]. The balance sheet is therefore the statement of the financial position of a business entity to satisfy the information needs of investors and creditors.

[6] Due to the dramatic nature of the proposed changes, strong reservations have been expressed by accounting practitioners and scholars. Thus FASB and IASB have had to postpone the introduction of the new financial statements although they initially planned to finalize the reporting standard project in 2011 [FASB, 2011].

The objectives of corporate financial reporting have evolved as a result of changes in the business environment, as well as the expansion of interest groups involved in business enterprises. These factors determine the content and presentation format of primary financial statements [AICPA, 1970; FASB, 1980]. In other words, the application and modification of primary financial statements (including the balance sheet) are subject to the requirements of financial reporting objectives under specific economic and business context [Most, 1980].

The balance sheet was "imported goods" to China. In general, Chinese accounting grew fairly slowly before the twentieth century even though it has a long history dating back to early human civilizations. For a relatively long period, Chinese accounting was mainly confined to rather simple governmental accounting (e.g., recordkeeping of the revenues and expenditures of different kingdoms or dynasties [Fu, 1971; Aiken and Lu, 1993]).[7] Due to the prolonged existence of agricultural and feudalist societies in Chinese history, social productivity and economic development were at fairly low levels. Also, there was a strong "anti-merchant" moral under the traditional Chinese social and cultural ideology [Auyeung, 2002]. Notable commercial and industrial activities were almost non-existent until the mid-nineteenth century [Guo, 1988]. Except for some small-scale processing productions for agricultural raw materials and handicraft works, such as tea, natural silks, general textiles, chinaware, there were almost no manufacturing or commercial operations in the modern sense until the early twentieth century [Fan, 1947; Feuerwerker, 1958]. Thus, Chinese accounting was undeveloped before the twentieth century. Only Chinese-style, single-entry recordkeeping with simple and crude form of balance accounts (*Shizhu Jiece*)[8] was used in practice, presenting a periodic trial balance for a small number of accounts being recorded [Guo, 1988, 2008; Lin, 1992; Aiken and Lu 1998].

[7] More detailed information about ancient governmental accounting in China can be found in Guo, D.Y. [2004] *Accounting History Studies: History, Present, and Future,* Volume 1, Chapter 3 and 4, pp.187–280. Also, see Chatfield, M. [1977] *A History of Accounting Thought*, pp.7–9.

[8] Although an accounting statement such as the balance sheet was not in use in ancient Chinese accounting, the *Shizhu Jiece* (four-pillar/four-leg balancing) method was used to close books periodically [i.e., the books must be closed at the end of a period in the form of balancing accounts: *Junguan* (old trust or beginning balances) + *Xinshou* (new receipts) = *Kachu* (used out) + *Shizai* (remaining or ending balance)]. More information about the *Shizhu Jiece* method can be seen in Guo, D. [2008] *Accounting History Studies: History, Present and Future*, Volume 3, pp.82–107.

It was not until the mid-nineteenth century, when China was defeated by Western industrial powers during the Opium Wars (1840–1842), that China was forced to open its domestic markets to the West. Thus Western merchants came to China to trade and they brought in Western capital and cultural influences [Thomas, 1984]. In pace with the emergence of Western-style manufacturing and commercial operations, Western accounting (featuring double-entry bookkeeping) was introduced and expanded in China from the early twentieth century [Lin, 1992; Chen, 1998; Auyeung et al. 2005].[9] As a result, the two main financial statements prevailing in Western accounting (i.e., balance sheet and income statement) began to appear in Chinese accounting; mainly for some government-run administrative agencies controlled by Western industrial powers under the reparation treaties imposed on the Chinese government due to its defeat in the Opium Wars. These agencies included customs, communications services, postal services, national banks, railway corporations, and some large indigenous enterprises doing business with Western trade partners. However, the traditional Chinese-style accounting and reporting practices remained popular among most domestic business entities until the revolutionary changes in Chinese society in 1949 [Guo, 1988; Aiken and Lu, 1998]. As observed by Auyeung [2002, p.9], in the early twentieth century, a majority of Chinese commercial and industrial firms continued to use single-entry, four-pillar balancing method. A small minority adopted the partial double-entry, three-leg bookkeeping method, and a few large enterprises used the dragon-gate or double-entry, four-leg bookkeeping method.[10]

[9] Some scholars believe that certain preliminary kinds of Chinese double-entry bookkeeping procedures, with a mixture of traditional single-entry bookkeeping practices, emerged in the commercial sectors in Northern China in the late nineteenth century, i.e., the *Longmen Zhang* [Dragon Gate bookkeeping] developed by merchants from Shangxi Province [see Lin 1992; Aiken and Lu, 1998; Auyeung, 2002]

[10] Chinese-style bookkeeping has evolved slowly from single-entry to double entry bookkeeping through the invention of *Sanjiao Zhang* (Tripod/Three-leg bookkeeping) around the mid fifteenth century. The method differs from the traditional single-entry bookkeeping by using separate recording treatments of different transactions or evens, i.e., transactions involved with claims and transfers must be recorded in both *Shou* (receipt) and *Fu* (pay) entries in two related journals or ledges simultaneously while other transactions be only recorded with one entry. Thus Chinese accounting historians call it a partial double-entry bookkeeping or *Pojiao Zhang* (Lame bookkeeping). Later, merchants in ShanXi province in Northern China (*JinShang*) created a rough double-entry bookkeeping system called *Longmen Zhang* (dragon-gate bookkeeping) with a four-pillar (four-leg) trial balancing structure around the seventeenth century (see [Lin, 1992; Aiken and Lu

The early expansion in the use of Western-style balance sheet in Chinese accounting occurred from the 1920s to the 1940s. Mr. Xulun Pan, the pioneer of modern Chinese accounting (who completed his accounting education in the United States in 1924[11]) demonstrated the basic structure of the balance sheet application in Chinese industrial and commercial enterprises in the 1930s, as shown in Table 1. Mr. Pan summarizes that, by using the primary classifications or presentation structure of the balance sheet, firms could list several subcategories, providing further detail of their operations. Hence some balance sheet categories may have listed up to a hundred sub-items in detail, while others may only have a total amount in each category [Pan, 2008]).[12]

TABLE 1

Basic Structure of Balance Sheet (used in the 1930s)

Current assets	Current liabilities
Fixed assets	Fixed liabilities
Other assets	Capital
	Surplus

According to Mr. Pan's observations, the balance sheet used in Chinese accounting in the 1930s is structured as follows: all asset items are presented on the left-hand side, in the order of their liquidity, from top to bottom; liability and equity items are presented on the right-hand side in terms of the settlement order of liabilities and the priority of equity claims from top to bottom. The total amounts for the two sides of the balance sheet must be equal. This balance sheet format remains common in

1998] for detailed description).

[11] Mr. Xulun Pan is the first Chinese person to have obtained an accounting education in the West. He received a master's in business administration degree from Harvard University in 1923 and a PhD in Economics (Accounting) from Columbia University in 1924. Mr. Pan returned to China to start his accounting career immediately after completing his studies in the US. He taught accounting courses at a university in Shanghai for three years and became a practitioner of public accounting in 1927. Mr. Pan established the *Lixing* Accounting Firm and *Lixing* Accounting School; the first of its kind in China, with branches located in most large cities across the country, to promote Western accounting in China through public practice and accounting education. Mr. Pan has been recognized as the "Father of Modern Chinese Accounting."

[12] See Pan, X. [2008], A few legal issues for corporate accounting in China, in *Selected Work of Pan Xulun*, (reprinted) *Lixing* Accounting Press, p.302.

present-day practice in most countries.

It should be noted that the balance sheet structure described by Mr. Pan is a general presentation. However, considerable variation existed in practice. This is because, in the early twentieth century, business operations and accounting were relatively backward due to the underdeveloped economy and external financing markets in the country; the information needs of external capital providers were not yet recognized in Chinese accounting and reporting. The prevalence of traditional Chinese social and cultural influences also obstructed the adoption of Western accounting methods [Auyeung, 2002]. In addition, a severe shortage of accounting personnel who had obtained appropriate training in Western accounting hindered the full adoption of Western-style financial reporting practices in Chinese accounting. The presentation of the balance sheet in practice may deviate considerably from the standardized formats. For instance, Table 2 exhibits the actual format of a balance sheet for Tianjin East Asian Woolen Textile Co. Ltd., located in one of the large commercial centers near Beijing, issued at the end of February 1940).[13]

TABLE 2

Balance Sheet of Tianjin East Asia Woolen Textiles Co. Ltd.
End of February, 1940

Assets	Amount at the End of Period	Liabilities	Amount at the End of Period
Cash		Contributed Capital	
Bank Deposits		Reserves	
Prepaid for Wool purchase			
Prepaid for Machinery		Depreciation Allowance	
Debtors		Bad Debts Allowance	
Receivable from Dealers		Bank Overdraw	
Collaterals for Rentals		Creditors	
Marketable Securities		Payable to Sale Dealers	
Machinery		Clients Deposits	
Furniture's		Consignment Guarantees	
Constructions		Collato Rentals	
Lands		Interest Payable	
Wool Stock		Payable to Governments	
End-Product Stock			
Woolen Stock		Retained Surplus	
Supplies			
Total		Total	

[13] Tianjin Archives, *Exhibition of Tianjin City Memories*, September, 2010.

Apparently, the firm's balance sheet is constructed based upon the basic principles of double-entry bookkeeping (i.e., strictly following debit and credit balances of accounts for their presentation in the balance sheet; all accounts with debit balances are listed on the left-hand side while all accounts with a credit balance are on the right-hand side). Therefore, depreciation allowance and bad debt allowance are listed under the category of liabilities due to their credit balances. This deviates from the current practice of setting contra accounts against corresponding asset accounts. Also, transactions for receivables from customers (debtors) and payable to customers (creditors) are presented on either side of the balance sheet according to the direction (debit or credit) of the account balances. This structure is mainly for the sake of facilitating bookkeeping and financial statements preparation. Thus, all accounts with debit balances are presented on the left (debit) side of the balance sheet while all accounts with credit balances are on the right (credit) side. This treatment is easy to understand and convenient for a trial balance, but there is a significant limitation as it mixes up the firm's assets and liabilities and may not reflect the actual amount (carrying values) of total assets and liabilities on the reporting date. In particular, putting the depreciation allowance and bad debt allowance (which are contra accounts against fixed assets and accounts receivables), within the category of liabilities, cannot be justified theoretically. Therefore, the balance sheet used by Chinese enterprises in the first half of the twentieth century was closer to a statement of trial balance in double-entry bookkeeping systems, compared to current standard practices.

REDESIGN OF THE BALANCE SHEET IN THE 1950S

After the Communists took power in 1949, China began to carry out a large-scale Socialist transformation of its manufacturing and commercial industries with the aim of having all production means owned by the public via state ownership or collective ownership. The main purpose of this transformation campaign was to build up a new Socialist economy nationwide as private business ownership was regarded as incompatible with the Socialist doctrine. State-owned enterprises (SOEs) were set up by expanding the industrial and commercial businesses developed in the regions under the early ruling of the Communist authorities before 1949, confiscating business properties and bureaucratic capital of the defeated old government, and redeeming the contributed capital from individual (nationalist) capitalists.

The state ownership over business operations became the backbone of the Socialist economy for the new China. However, the accounting systems of business enterprises with different original ownerships and administrative systems were quite diverse, with the coexistence of traditional Chinese-style bookkeeping and Western bookkeeping systems in practice. So it was often impossible to compare business activities and accounting data for different enterprises, or to consolidate them into the state budgets and national economic plans. There was therefore a pressing need for the central government to establish new accounting systems to accomplish the Socialist transformation of industrial and commercial enterprises nationwide.

In this context, how to report/reflect all business properties (assets) under the new public (state) ownership not only became an urgent task for the government, but also caused serious debate among Chinese accounting practitioners. The central issue was whether to adopt the internationally accepted double-entry bookkeeping and the financial reporting practices prevailing in the West or to establish new accounting systems, to satisfy the administration needs of the new Socialist economy. The latter view gained prevalence in the debate as government agencies were the owners and funding sources for business enterprises. So providing information to the government to install a Socialist planned economy became the dominant task in accounting and financial reporting at that time. The Ministry of Finance at the central government then decided on "implementing the double-entry bookkeeping method and cash-based accounting method" in budgetary accounting for governmental departments. At the same time, a nationwide program for establishing uniform accounting systems for business entities was launched to facilitate the development of the Socialist economy in China [Xiang, 1999].

The new government adopted the Socialist political and economic administrative systems of the former Soviet Union immediately after the founding of the People's Republic in 1949. This is because the Soviet Union had been a Socialist country since the early 1910s and it was the 'Big Brother' (or patron) of all emerging Socialist countries after World War II. In particular, the Chinese Communist government entered into a political alliance with the Soviet Union and fully adopted the Soviet-style political and economic administration systems in China to implement the centrally planned economy in the early 1950s.

Thus Soviet-style accounting systems were introduced with the assistance of Soviet finance and accounting advisors working in various government authorities in China [Zhou, 1988; Lin 1989]. In order to convert the enterprises (originally under varied ownerships and administrative modes) into a Socialist state-owned economy, it was necessary to undertake a thorough inventory of the assets and obligations of all enterprises for national economic planning and control. Thus, the Central Finance and Economic Commission of the new government issued instructions for drafting uniform industrial accounting systems in March 1950 [Xiang, 1999].

The Central Ministry of Heavy Industry first issued a draft of a unified accounting system for all enterprises and economic institutions under its jurisdiction in April 1950. The draft was reviewed and approved by the Ministry of Finance and the Central Finance and Economic Commission and formally implemented on July 1, 1950. By June 1951, thirteen industrial administration ministries, at the central government, had issued unified accounting systems for the enterprises and economic institutions under their jurisdictions. The balance sheet was established as the primary financial statement under all of these industry-based uniform accounting systems.[14] This is because the primary objective of accounting and reporting during this period was to facilitate the government and its administrative agencies in taking inventory of the properties (resources), obligations and interest claims of all business entities under their jurisdictional administrations.

In October 1952, the Ministry of Finance organized the first national meeting on financial management and accounting for business enterprises and tabled the *Draft of the Amendment to the Uniform Format of Accounting Statements for State-Owned Industrial Enterprises*. It was resolved by the meeting that the new uniform national accounting systems would be implemented on January 1, 1953, including the introduction of a remodeled balance sheet for all state-owned enterprises across the country [Xiang, 1999]. Table 3 presents the content and structure of this first standardized balance sheet in the early 1950s in China.

[14] Under the uniform accounting systems, the balance sheet, though keeping the name but modified substantially in terms of content, was coded as *KuaiGong* (industrial accounting) Form No. 1, indicating its status as the first financial statement for industrial enterprises.

TABLE 3

Uniform Balance Sheet for State-Owned Industrial Expenses (*KuaiGong* Form 1) (Effective on January 1, 1953)

Account Code	Assets	Account Code	Liabilities
	I. Fixed and Accrued Assets		**I. Fixed and Accrued Liabilities**
	Fixed Assets:		Fund:
0101	Long-term Assets	1401	Government Funds
0111	Unused Fixed Assets	1411	Other Funding
0121	Unnecessary Fixed Assets	1421	Basic Depreciation Funds
0131	Property Claiming Assets		1. Previous Year
0141	Improvement Costs of Leased Assets		2. Current Year
0151	Disposal of Fixed Assets	1431	Assigned assets with unsettled Claims
	Total Fixed Assets		Total amounts of Funds
	Accrued Assets:		Appropriations:
0201	Current assets paid to the Treasury	1501	Liquidity funds from the Treasury
0202	Current assets offset payable to the Treasury	1511	Transfer-in Liquidity Funds
0211	Depreciation Funds Paid to the Treasury	1521	Losses recovery by the Treasury
	1. Previous Year		1. Previous Year
	2. Current Year		2. Current Year
0212	Depreciation Funds Paid to Commercial Banks	1531	Transfer-in for Losses recovery
	1. previous Year		1. Previous Year
	2. Current Year		2. Current Year
0221	Disposal Gains from Fixed Assets Paid to the Treasury	1541	Other Appropriation
			Total Amount of Appropriations
0222	Disposal Gain from Fixed Assets Paid to Commercial Banks		Depreciation Allowance:
		1601	Fixed Assets
0231	Profits Paid to the Treasury	1611	Unused Fixed Assets
	1. Previous Year	1621	Unnecessary Fixed Assets
	2. Current Year	1631	Assets with Unsettled Claims
0232	Offset of profit remittance to the Treasury	1641	Improvement of Leased Assets
	1. Previous Year		Total Amount of Depreciation
	2. Current Year		
0233	Profits Paid to Commercial Banks	2051	Profit:
	1. Previous Year		1. Previous Year
	2. Current Year		2. Current Year
0241	Extraordinary Losses		Total Profits
0242	Storage Fee of Fixed Assets		
0243	Accrued Enterprise Incentive Funds		Quoted Liabilities:
0251	Refundable Prepaid	1901	Wages Payable
0252	Frozen Foreign Exchange and Other Assets	1902	Wage extra charged Payable
	Total Amount of Accrued Assets	1911	Accrued Expenses
		1921	Taxes Payable
	Investment:	1941	Guarantee Deposits by Customers
0261	Investment in Subsidiaries	1942	Customer Down payment
	1. Fixed capital		Total Standard Liabilities
	2. Current assets (working cap.)		
0262	Other Investment		Total Fixed and Quoted Liabilities
	Total Amount of Investment		
2051	Operating Losses:		
	1. Previous Year		
	2. Current Year		
	Total Amount of Loss		
	Total Fixed Assets and Accrued Assets		
0311	**Ⅱ Quota Assets**		**Ⅱ Quota Capital Liabilities**
0312	Raw Materials and Primary Materials		
0313	Auxiliary Materials	1701	Seasonal Borrowing
0314	Fuels	1711	Exceed Quote Loans
0321	Sporadic Accessories	1721	Obsolete Inventory Loans
0331	Wastes		
0332	Packaging Materials		
0501	Supplies and Consumables		
0511	Work in Process stock		
0601	Semi-finished Goods		
0701	Finished Goods		

TABLE 3 (continued)

	Prepaid Expenses:		
	1. Research & Development		Total Quota Liabilities
	2. Preparation Costs for Mining		
	3. Prepaid Insurance		
	4. Obsolete Raw Materials		
	Total Quota Assets		
	Ⅲ Liquidation and Other Assets		**Ⅲ Clearing and Other Liabilities**
0801	Monetary Funds:	1731	Bank Loans:
0811	Bank Deposits	1741	Borrowing for goods delivered
0821	Non-local Bank deposits	1751	Other Loans
0831	Foreign currency Deposits		Overdue Loans
0841	Credit bills		Total amount of Bank Loans
0851	Cash on hand		
	Securities	1801	Settlement with Customers:
	Total Monetary Funds	1811	Accounts Payable
		1821	Overdue Accounts Payable
0901	Sales Collection and Liquidation:		Provisional Accounts Payable
0911	Goods Sent-out		Total Settlement with Customers
0921	Rejection of payment for Goods Sent out		
	Accounts Receivable	1931	Payable and Advances Received:
	Total Sales Collection & Liquidation	1951	Accrued Expenses
		1961	Revenues in Advance
1001	Receivables and Prepays:	1962	Enterprise Incentive Funds
1011	Petty Cash	1971	Employee Welfare Funds
1021	Down Payments	1981	Unpaid Salary
1031	Prepaid Processing Fees		Temporary Collection
1041	Other Advances		Total Payable & Advances Received
1051	Receivable from employees		
1061	Temporary Payment	1101	Internal Contract Liabilities:
	Storages of Materials to be Processed	1111	Contract Between Construction Units
	Total Receivables and Prepayments		Other Internal Contracts
			Total Internal Contract Liabilities
1101	Internal Contract Assets:		
1111	Contract Between Construction Units		Total Clearing and Other Liabilities
	Other Internal Contracts		
	Total Internal Contract Assets		
	Total Liquidation and Other Assets		
1201	**Ⅳ Infrastructure Fund Assets**	2001	**Ⅳ Infrastructure Fund Liabilities**
1202	Completed Capital Investment Project	2002	Appropriation of Infrastructure Funds
1203	Completed Sporadic Construction Projects	2003	Sporadic Infrastructure Funds Received
	Pending write-off of Constructioı	2021	Other Infrastructure Funds Received
	Abolished and Other Expenditures:	2022	Contracting Payables
	1. Loss of Construction Abolished	2031	Accounts Payable
	2.	2041	Temporary Collections
1211			Enterprise Incentives Fund
1212	Unfinished Capital Investment Project		
1221	Unfinished Sporadic Construction Project		Total Infrastructure Liabilities
1222	Primary Raw Material		
1231	Other Material		
1241	Supplies and Consumables		
1251	Equipment to be Installed		
1261	Prepaid Expenses		
1262	Bank Deposits		
1271	Cash on Hand		
	Prepay Contractor Materials and Unfinished		
1272	Construction		
1273	Prepay for Engineering Structure and Parts		
1281	Prepay Installment for Contractors		
1291	Temporary Advanced Payment		
	Accrued enterprise Incentive Fund		
	Total Infrastructure Funds Assets		
1301	**V. Maintenance Projects Assets**	2101	**V. Maintenance Project Liabilities**
1311	Completed Maintenance Projects	2111	Maintenance Project Funding
1321	Unsettled Maintenance Projects Completed		Appropriation for Maintenance
1331	Unfinished Maintenance Project	2121	Funds
1332	Bank Deposits	2131	Borrowing for Maintenance Projects
	Maintenance Project Fund Assigned by		Other Liabilities
1333	Higher Authority		Total Maintenance Liabilities

TABLE 3 (continued)

1241	Supplies and Consumables		
1251	Equipment to be Installed		
1261	Prepaid Expenses		
1262	Bank Deposits		
1271	Cash on Hand		
1272	Prepay Contractor Materials and Unfinished Construction		
1273	Prepay for Engineering Structure and Parts		
1281	Prepay Installment for Contractors		
1291	Temporary Advanced Payment		
	Accrued enterprise Incentive Fund		
	Total Infrastructure Funds Assets		
1301	**V. Maintenance Projects Assets**	2101	**V. Maintenance Project Liabilities**
1311	Completed Maintenance Projects	2111	Maintenance Project Funding
1321	Unsettled Maintenance Projects Completed		Appropriation for Maintenance
1331	Unfinished Maintenance Project	2121	Funds
1332	Bank Deposits	2131	Borrowing for Maintenance Projects
	Maintenance Project Fund Assigned by		Other Liabilities
1333	Higher Authority		Total Maintenance Liabilities
1341	Stock and Cash		
1351	Advanced Payments		
	Other Assets		
	Total Maintenance Fund Assets		
	Total Assets		**Total Liabilities**
	Supplementary Information：		
0101	1. Land		
	2. Leasing Fixed Assets		
	3. Hosting Governmental Goods		
	4. Processing Materials in Assignment		
1651	5. Amortization for Consumables		
2011	6. Amortization for Infrastructure Consumables and Prepayment		

Notes:

1) Source: Xiang, H. (Chief Editor), [1999], *50 Years' Accounting for New China*, China Finance and Economics Publishing House, Beijing: pp. 115-125.
2) The statement has three columns of "Beginning balance", "Ending balance" and "Increase or Decrease amount" on the left- and right sides, respectively;
3) Sections "Ⅱ. Quota Assets" and "Ⅱ. Quota Capital Liabilities" must present the quota amounts planned for the prior year and the current year.

Although this financial statement was called "balance sheet," its structure and content differ substantially from the traditional balance sheet prevailing in most other countries. First, the statement is highly disaggregated and has an extremely lengthy format. Many line items in segregated sections were required by government and industrial administration authorities to fulfill their administrative needs. Since the government was engaged in Socialist economic transformation (i.e., converting enterprises under varied ownerships into state ownership), consolidation of their properties and claims into national economic plans was a primary economic task in the early days of the new China. Therefore, to provide data for different administrative authorities within the central government in their efforts to take inventory of all properties and claims they should have was the dominant objective of business accounting and financial reporting at that time. The remodeled balance sheet was designed to manage such economic tasks, rather than to summarize the resources and claims from the perspective of a business entity's investors and creditors, as we see today.

As can be seen in the remodeled balance sheet shown in Table 3, the left-hand side lists all asset items by administration function (e.g., fixed/accrued assets, quota assets, liquidation assets, infrastructure fund assets, and maintenance project assets) and gives similar treatment to the liability items on the right-hand side. However, some non-asset items (e.g., deposit gains, profit paid to the State Treasury and commercial banks, offsetting of profit remittance, storage fees for fixed assets, accrued enterprise incentive funds, and extraordinary losses) are listed in the category of assets on the left-hand side of the statement. In addition, there are only liability items on the right-hand side and no equity interest item is shown on the statement. In fact, the equity interests (or net assets) of an enterprise (regardless of its original type of ownership) belong (accrue) to the government under public (state) ownership, so all claims against assets or resources utilized (or obtained) by the enterprise are shown as liabilities to the new government. Similarly, most capital funds and government appropriations to an enterprise, as well as profit made, are reported under the liability side of the balance sheet. Clearly such a structure, though fulfilling the purpose of inventory-taking for government and its administrative agencies, would mix up assets and liabilities and could not reveal the financial position (net worth) of an enterprise at the reporting date. The use of this form of balance sheet was hence determined by the political and economic changes in China in the early 1950s.

The statement is divided into five strictly segregated sections on both sides and a balance between the left-hand and right-hand sides is required for each corresponding section. This is a reflection of the government's fiscal administration policy of "Specific funding for specified purposes." In Section I, Fixed and Accrued Assets must correspond to Fixed and Accrued Liabilities; in Section II, Quota Assets corresponds to Quota Capital Liabilities; in Section III, Liquidation and Other Assets corresponds to Settlement and Other Liabilities; in Section IV, Infrastructure Fund Assets corresponds to Infrastructure Fund Liabilities; and Maintenance Project Assets corresponds to Maintenance Project Liabilities in Section V. Each section lists the corresponding balances in accordance with their respective accounts from the books. This structure is somewhat like that in Fund Accounting as it requires business enterprises to report their resources and obligations for varied administrative functions or tasks with specified operating purposes (restrictions).

This statement serves as a tool for the government to carry out centralized economic planning and business administration. The underlying logic is that: *"the State prepares economic plans according to the needs and potential of social and economic development; the financial revenue and expenditure plans of all business enterprises are a part of the national economic plans and serve as the basis for the preparation of national fiscal budgets. In accounting, the use of accounts and the format of financial statements are designed in light of the needs for the preparation, implementation and evaluation of the State's plans for fiscal revenues and expenditures"* [Lin, 1989; Xiang, 1999].[15] However the essential characteristics of a business enterprise, as a market-oriented and self-sustained economic entity, were downplayed and the correlation between the operating results and interests of an enterprise and its non-government stakeholders was completely ignored, since all enterprises were simply regarded as government-owned subsidiaries to implement national economic plans [Tang, et al. 1995]. It is difficult to discern the enterprise's own resources and interest claims in the remodeled balance sheet.

Later, in 1954, the Ministry of Finance issued two sets of uniform accounting systems applicable to industrial enterprises of varied sizes (i.e., *Unified Format of Accounts and Accounting Statements for the State-Owned Industrial Enterprises* and *Simplified Version of Unified Format of Accounts and Accounting Statements for the State-Owned Industrial Enterprises*). In 1956, after the completion of the Socialist transformation of private industrial and commercial enterprises, the Ministry of Finance issued *Standard Accounts and Accounting Statement Formats for Joint Operations of Public (State)-Private Ownership Enterprises under the Jurisdiction of the Central Administrative Ministries (Draft)*, which was implemented on January 1, 1957. These accounting systems made certain modifications and simplifications to the required balance sheet, although the basic structure and content were unchanged from the remodeled one that had been introduced earlier.

RESCISSION OF THE BALANCE SHEET IN THE 1960S

Back in the early 1950s, some Chinese accounting practi-

[15] Xiang, H. (Chief Editor), [1999], *50 Years' Accounting for New China*, China Finance and Economics Publishing House, Beijing, p.13.

tioners and scholars called for the establishment of accounting systems based on traditional Chinese accounting (bookkeeping) rather than adopting Western accounting methods for the new China. For instance, Mr. Naiqi Zhang, a famous Chinese financial expert and scholar, published two articles in national newspapers to promote the use of indigenous and popular Chinese-style, cash-based bookkeeping instead of the stereotypical foreign debit–credit bookkeeping in 1950.[16] Two other accounting scholars, Zinging He and Shouchen Huang, contended that accounting had the property of "class nature" [He and Huang, 1951] and should operate with distinct characteristics under different social and political systems.

Until the late 1950s, the mainstream view in Chinese accounting circles was that the balance sheet was outdated, strictly served the needs of capitalism and was a tool for capitalists to exploit workers. Thus the balance sheet should be rejected in a Socialist economy; instead, new accounting systems and financial statements, compatible with the Socialist planned economy, should be established in China.

In 1958, the Chinese government launched a political movement, the *Great Leap Forward*, throughout the country. This demanded an unrealistically fast pace of growth in almost every aspect of economic and social development. In accounting practice, the call to abandon capitalist elements (concepts) in accounting, and to simplify accounting and reporting procedures, became overwhelming [Zhang, 1980; Chan and Rotenberg, 1999]. As a result, an increase–decrease bookkeeping system[17] was created to replace the Italian-style, debit–credit, double-entry bookkeeping for almost all industrial and commercial entities [Lin, 1989] and the funds balance statement replaced the previous balance sheet.

However, the funds balance statement does not depart completely from the traditional balance sheet. Although the title, classification elements and presentation of related accounts in the statement have been altered, the principle of balancing accounts in the balance sheet structure has not been abandoned. The English title of balance sheet emphasizes the balancing of

[16] See Zhang, N. [1950] "Adoption of Our Own Bookkeeping Principles in Accounting" (January 29) and "Reconsideration of Adopting Chinese Bookkeeping Principles in Accounting" (March 31) in *Ta Kung Pao* (one of the earliest national newspapers in China), Shanghai.

[17] Zhang, Y.K. [1980], *The Increase–Decrease Bookkeeping Method* describes the details of the so-called Socialist bookkeeping system in China during this period.

assets owned by a business entity with the legal claims against the assets (e.g., liabilities and owner's equity). But the new funds balance statement is structured based on the balancing relationship between the uses (applications) and sources of funds utilized by a business entity. It is, in essence, more like the fund statement in Fund Accounting promoted by Vatter [1947] and mainly applicable to governments and non-profit organizations in other countries [James, 1950]. Table 4 presents the format and content of this funds balance statement introduced by the Chinese government administrative authorities in the 1960s [Xiang, 1999].

TABLE 4

Funds Balance Statement (*KuaiGong* Form 1)

Prepared by： year/ month/ date Unit：*yuan*

Uses of Funds	Beginning Amount	Ending Amount	Source of Funds	Beginning Amount	Ending Amount
Fixed Assets:			**Fixed and Liquidity Funds:**		
Original Price of Fixed Assets			Fixed Funds from State Treasury		
Subtract：Depreciation			Enterprise Fixed Fund		
Net Amount of Fixed Assets			Fixed Fund to be Transferred		
Capital Expenditures to be Write-off			Liquidity Funds from State Treasury		
Loss of Fixed Assets to be Disposed			Enterprise Liquidity Fund		
Intangible Assets			Investment on Other Entities		
Long-term Investments			Sub-total		
Sub-total			**Borrowed Funds:**		
			Borrowings Capital Investments		
Current Assets:			Investment Loans		
Subtotal of Quota Current Assets:			Loans for Designated Uses		
Reserve Funds			Bonds Payable		
Production Funds			Payable for Imported Equipment		
Finished Goods Funds			Working Capital Loans		
Overstock of Materials & Goods			Sub-total		
Loss of Current Assets to be Disposed			**Settlement Funds:**		
Subtotal of Other Current Assets:			Installment Payment Received		
Goods Delivered			Accrued Expenses		
Monetary Funds			Withholding Taxes		
Include: Bank Account Deposits			Notes Payable		
Notes Receivable			Payables and Advanced Deposit		
Accounts Receivable and Prepaid			Other Payables		
Unsettled Losses			Taxes Payable		
Other Receivables			Unremitted Profits		
Subtotal			Other Payables		
			Un-retained Profits (For January to November）		
			Sub-total		
Special-purpose Assets:			**Special-Purpose Funds:**		
Deposits for Special-purposes			Specially-designated Funds		
Special-purpo. Materials & Goods			Wage Funds		
Expenditure of Special Projects			Designated Appropriations		
Securities for Special-Purposes			Un-remitted Special-purpose Funds		
Receivables and Prepayments			Payable and Temporary Collections		
Sub-total			Sub-total		
Total of Funds Used			**Total of Funding Sources**		

Source: Xiang, H. (Chief Editor), [1999], *50 Years' Accounting for New China*, China Finance and Economics Publishing House, Beijing: pp. 175-176.

As shown in Table 4, the structure of the funds balance statement departs substantially from that of the remodeled balance sheet adopted in the 1950s. First, it is a fund statement that emphasizes fund flows in an enterprise. The funds balance statement must clearly demonstrate the funding sources (e.g., the state) and the uses (or applications) of the funds (in the form of different categories of assets) in the enterprise on the reporting date. This is because Chinese enterprises, at that time, were budgetary units for the government to implement the centrally administered economic plans and specific economic/fiscal policies and were assigned several tasks or responsibilities by the government's administrative authorities (e.g., special-purpose investments, social security and labor protection, and local social and economic development projects).

With the varied responsibilities, segregated accounts had to be kept to discharge the various administrative mandates. Thus the concept and format of fund accounting were also applied in business accounting and the funds balance statement was required for financial reporting. Second, no separate presentation of liability and owner's equity is shown on the statement, because the distinction between liability and owner's equity is not particularly important or meaningful as almost all enterprises are fully owned by the government. Third, there was no reflection of asset valuation or revaluation because business accounting mainly served government administrations and the historical cost accounting principle was strictly applied to fulfill the custodian responsibility for state-owned properties. Information on the current value of assets and liabilities, highly relevant to decision-making by external investors and creditors, was completely ignored. Fourth, this statement is substantially simplified in content compared to the previous balance sheet. In particular, the original five-section structure is replaced by two-section balancing: 1) the sum of fixed assets and current assets on the left-hand side should balance the sum of fixed and liquidity funds, borrowed funds, and settlement funds on the right-hand side and 2) the special-purpose assets on the left-hand side must balance the special-purpose funding sources on the right-hand side. Segregation of assets and liabilities by administrative function is imposed as intersection fund flows are not allowed. This layout reflects the government authorities' varied administrative requirements for different funds entrusted to the enterprises. Fifth, there is an improvement in the classification and presentation of related accounts. For instance, depreciation allowance is now treated as a contra account (to the fixed assets) and listed under the uses of funds on the left-hand side. Thus the book value of fixed assets can be shown directly. Classification of fixed and current assets is consistent with the common definitions prevailing in other countries and intangible assets are recognized.

This form of funds balance statement was in use until the early 1980s although some minor modifications were made during its use. Nonetheless, the funds balance statement remains government-oriented. Just as Radebaugh and Gray [1993, p.227] observed, accounting in a centrally planned context is perceived as having primarily a recordkeeping function and is not decision-oriented or concerned with efficiency at the enterprise level.

RESTORATION OF THE BALANCE SHEET IN THE 1980S

The centrally planned economy was not successful in China as enterprises owned and run by governments are inefficient in operation. In particular, the Cultural Revolution (1966-1976) launched by the orthodox ideologists brought pervasive anarchy and chaos, socially and politically, in the country [Pye, 1986]. China's social development stagnated and its economy experienced serious recessions. After the death of Chairman Mao in late 1976, the Chinese government decided to end the disastrous revolution and refocus on economic development with large-scale reforms of economic administration systems [Joseph et al. 1991]. In particular, the Third Plenary Session of the Chinese Communist Party was held in Beijing in December 1978, which accepted political pragmatism as a means of breaking away from orthodox "leftist" doctrine. Therefore, the policy of "economic reform and opening to the outside world" was formally adopted.

China's social and economic development has been on a fast track since then. The highly centralized, planned economy has been in gradual transition towards a market-based, Socialist economy. State-ownership and strict state economic planning and control were reduced dramatically and continuously. Enterprises were allowed to be relatively independent economic entities rather than budgetary units used to implement the state economic plans and other administrative policies [Lin, 1989; Tang and Lau, 2000]. Economic diversification was encouraged, as share-capital companies and private business ownership emerged and flourished in Chinese economy. Foreign capital and investments were also permitted. As a result, non-government stakeholders appeared (e.g., external investors and creditors). Also, the ideological liberation campaign launched by the new leadership of the Communist Party prompted a pragmatic view toward the development of Western-style economies and business administrations.

The Chinese accounting profession started a discussion in the late 1970s about how to recognize the fundamental properties of accounting in general, as well as how to evaluate the debit and credit bookkeeping and the generally accepted accounting principles in the Western countries [Tang et al., 1994]. Consequently, with recognition that the concepts of capital, commodities, market, credit, shares capital, private ownership, and property rights could be part of a "market economy with Socialist characteristics" in China, debit–credit, double-entry bookkeeping was relieved of the "capitalist" label [Ge, 1978; Lin, 1989].[18] Later, many state-owned enterprises were converted into share-capital companies with the reopening of two stock markets in Shanghai and Shenzhen in the early 1990s.[19] Therefore business enterprises were required to be "relatively independent commodity producers" and started to gain financing through the markets instead of depending entirely on government appropriations. Businesses needed to have their own resources (assets) and obligations (liabilities and owner's equity), and bear the market pressures to grow and survive. Thus the objectives of business accounting evolved to accommodate the information needs of both government and non-government users, leading to substantial changes in business accounting and reporting in the country [Scapens and Hao, 1995; Graham and Li, 1997].

In line with the rapid progress of economic reforms and increasing inflows of foreign capital, the Chinese government reintroduced Western-style debit and credit bookkeeping and financial statements with the implementation of the *Accounting System for Joint Ventures with Sino-foreign Capital* and *List of Accounts and Accounting Statements for Joint Ventures with Sino-foreign Capital* issued by the Ministry of Finance on July 1, 1985 [Zhou, 1988; Robert el at., 1995].

[18] Professor Ge Jiasu, a prestigious Chinese accounting scholar, published a paper entitled "We should restore the reputation for the 'debit–credit bookkeeping method'—evaluate the so-called capitalist bookkeeping method," in *China Economics Issues* (No. 4) in 1978, this heralded the start of the internationalization of Chinese accounting over the last three decades.

[19] Stock exchange in Shanghai started in the 1930s but was closed down in the early 1950s during the Socialist transformation of industrial and commercial enterprises in the country.

The new practices were rapidly expanded to other types of business entities [Lefebvre and Lin, 1990]. In particular, the Ministry of Finance formulated *Accounting Standards for Business Enterprises* and *General Rules of Financial Management for Business Enterprises*, along with thirteen new industrial accounting systems in November 1992 [Winkle et al. 1994; Chow et al., 1995], and officially required the listed companies to adopt the Western-style balance sheet for financial reporting.

As the Chinese economy became more diversified with increasing foreign investors and private businesses, the demands for information grew (with respect to a firm's assets, legal claims, liquidity and solvency), particularly for the information needed by other nongovernment external capital providers (i.e., investors and creditors). Furthermore, as the Chinese economy integrated increasingly with world markets, the needs for attracting foreign capital, advanced technologies and financing from international capital markets prompted the international harmonization of Chinese accounting and reporting practices. As a result, restoration of the balance sheet (commonly used in most developed countries) resulted from Chinese accounting reforms in the early 1990s [Robert et al., 1995; Tang, 2000].

In 2000, the Ministry of Finance consolidated the thirteen industrial accounting systems in effect at that time into the *Accounting System for Business Enterprises*, *Accounting System for Financial Institutions*, *Accounting System for Small Business Enterprises*, and *Accounting System for Rural Collectively-Owned Economic Entities*. A uniform balance sheet, as illustrated in Table 5, was then introduced to replace the funds balance statement for all business enterprises across the country [MoF, 2001].[20] At the same time, footnote disclosure (e.g., accounting policies being applied and auxiliary schedules and explanations) was added to financial statement presentation to provide more relevant supplementary information to assist users' understanding and utilization of financial statements.[21] Another reason

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[20] In 2006, the Ministry of Finance amended and issued the "Basic Accounting Principles for Business Enterprises" and 38 specific accounting standards, which have achieved substantive convergence with international accounting standards (IFRSs and IASs). Again, the balance sheet is adopted as the first financial statement. The new set of accounting standards has been implemented for all listed companies since 2007.

[21] For a long time before the early 1990s, Chinese accounting statements were very detailed with lengthy disaggregated line items (see Tables 2 and 3). Therefore footnote disclosures were not officially required. Since the government fiscal administration authorities imposed specific and mandatory accounting and

behind the abundance of the funds balance statement is due to criticisms against the over-disaggregation, and a mixture of operating activities by varied administrative functions in the statement, which was quite confusing and difficult to understand by non-government users.

The balance sheet has been reinstated as the first financial statement to report the financial position in Chinese accounting since 1993. Significant changes have been made in comparison to the previous funds balance statement since enterprises are now treated as business entities, independent of the government, and must report their own financial positions to external users. As shown in Table 5, its structure and content are aligned with internationally accepted norms. Following rapid privatization of state-owned enterprises, Chinese enterprises are now operating in the market-oriented economy with their own assets, liabilities and equity interests. The government is now one of the capital providers to the enterprises rather than the sole owner and capital provider. Therefore, 1) separate classifications of liabilities and owner's equity are made on the right-hand side of the statement to show different legal claims by external investors and creditors against total assets employed by each enterprise; 2) profit does not belong directly to the government and enterprises can retain their net income after paying taxes to the government (undistributed profits); 3) information on liquidity and solvency is emphasized as assets and liabilities are presented in the order of liquidity following the classifications of current and long-term items that are consistent with prevailing practices in the developed world; 4) some new items are added on the balance sheet (e.g., impairment of fixed assets or long-term investments to reflect market uncertainty or risk, and deferred tax asset or liability to reflect the reform of business income tax systems by the government to introduce specific economic incentives to boost business operations and economic growth; 5) all assets are presented in net book amounts while the contra accounts (e.g., bad debt allowance, accumulated depreciation and impairment, and inventory write-off) are presented under the related accounts to derive their net amounts (carrying values); 6) several reserves are allowed to enhance

finance rules (e.g., the official accounting systems) for all industries and enterprises, explanation of accounting policies was unnecessary. Even a supplementary explanation was required to elaborate on a few key line items in the accounting statements; very limited information was included in the explanation disclosure before the new accounting standards were implemented in 1993.

enterprises' capacities to survive and expand, although some mandatory reserves are set mainly to fulfill certain policy needs of the government, such as employees' welfare funds and mandatory general capital reserves; and 7) footnotes disclosure was officially required, in line with the international accounting and reporting norm, to help reduce the overly detailed line-item presentation of the balance sheet.

TABLE 5

Balance Sheet (*Kutaisi* Form 01)

Prepared by: year/ month/ date Unit: *Yuan*

Assets	Row	Liabilities and Equity	Row
Current Assets:		**Current Liabilities:**	
Monetary Funds	1	Short-term Borrowings	68
Short-term Investments	2	Notes Payable	69
Notes Receivable	3	Accounts Payable	70
Dividends Receivable	4	Collections in Advance	71
Interest Receivable	5	Wages Payable	72
Accounts Receivable	6	Employee Welfare Payable	73
Other Receivables	7	Dividends Payable	74
Payments in Advance	8	Taxes Payable	75
Subsidies Receivable	9	Other Remittent Due	80
Inventory	10	Other Payables	81
Prepaid Expenses	11	Accrued Expenses	82
Long-term Debt Investment Due in one Year	21	Estimated Liabilities	83
Other Current Assets	24	Long-term Debts Due in One Year	86
Total of Current Assets	31	Other Current Liabilities	90
Long-term Investments:		Total Current Liabilities	100
Long-term Equity Investments	32		
Long-term Debt Investments	34	**Long-term Liabilities:**	
Total Long-term Investments	38	Long-term Borrowings	101
Fixed Assets:		Bonds Payable	102
Original value of fixed assets	39	Long-term Payables	103
(-): Accumulated Depreciation	40	Payables for Special-purpose	106
Net Amount of Fixed Assets	41	Other Long-term Liabilities	108
(-): Impairment of Fixed Assets	42	Total Long-term Liabilities	110
Net amount of Fixed Assets	43	**Deferred Taxes:**	
Construction Goods	44	Deferred Tax Credits	111
Construction in Progress	45	Total Liabilities	114
Disposal of Fixed Assets	46		
Total of Fixed Assets	50	**Owner's Equity:**	
Intangible Assets and Other Assets:		Paid-in Capital	115
Intangible Assets	51	(-): Capital Contributions Returned	116
Long-term Prepaid Expenses	52	Net Paid-in Capital	117
Other Long-term Assets	53	Capital Surplus	118
Total Intangible Assets and Other assets	60	Reserves	119
		Include: Statutory Welfare Funds	120
Deferred Taxes:		Undistributed Profits	121
Deferred Tax Debits	61	Total Equity	122
Total Assets	67	**Total Liabilities and Equity**	135

Notes: 1) Source: The Ministry of Finance of the People's Republic of China, [2001], *Accounting Systems for Business Enterprises 2000*, Economic Science Press, Beijing: pp. 282-283.
2) Comparative numbers at the beginning and the end of the fiscal year are required for all balance sheet items to be reported.

It should be pointed out that the balance sheet introduced under the Chinese accounting standards and uniform accounting systems in 2000 is fairly similar to the one used in most Western countries today. This is mainly due to significant economic diversification and integration of Chinese economy with world markets. After its implementation, the new balance sheet helps strengthen enterprises' status as independent business entities, increase the understandability of Chinese accounting, facilitate inflows of foreign capital and advanced technology, and enhance the relevance of accounting information for economic decisions made by users (both government and non-government). Furthermore the change has facilitated the international convergence of Chinese accounting and promote rapid economic growth in China.

DISCUSSION AND CONCLUSION

The balance sheet, which originated in Western double-entry bookkeeping, was initially adopted in Chinese accounting due to the import of Western influences under the semi-colonization of the country by major Western powers in the early twentieth century. However, the accounting statement underwent substantial changes several times after the founding of The People's Republic in 1949. The evolution of this statement is a reflection of the significant political, social and economic changes in China at three different stages: 1) the establishment of a Socialist economy with public (state) ownership for a transformation of non-Socialist (private/capitalist) business entities by adopting the former Soviet-style political and economic administrative systems in the 1950s; 2) the implementation of a nationwide planned economy with strong political or ideological influences in the 1960s and 1970s; and 3) large-scale economic reforms to promote economic diversification and a market-based economy since the mid-1980s.

Chinese accounting has experienced significant changes to accommodate these dramatic changes, and facilitated different types of economic administrations and business restructuring tasks [Scapens and Hao, 1995; Xiao and Pan, 1995; Tang, 2000]. The objectives of accounting and reporting are determined by the information needs of the dominant users in specific political and economic environments [FASB, 1978; Most, 1986]. Thus, the content and structure of the primary financial statement (i.e., the balance sheet) in China have been amended substantially and continuously to accommodate specific accounting and reporting purposes in light of economic and accounting developments.

Following decades of wars (including civil wars) in the first half of the twentieth century, the Chinese Communists reunited the country and established a centralized plan economy. The Chinese accounting practices replicated from the former Soviet systems in the early 1950s unified the country's diverse accounting and reporting systems and promoted the Socialist transformation of all industrial and commercial enterprises throughout the country. The remodeled balance sheet with substantial changes in its content and structure, especially the design of five-section accounts balancing with very detailed entries, was justified to facilitate primarily the government's consolidation of all business properties and claims. The dominant accounting task was to serve the government's administrative needs for inventory-taking and to establish a Socialist economy nationwide.

During the 1960s and 1970s, the traditional balance sheet became incompatible with the Socialist planned economy and was basically rejected in Chinese accounting until the 1980s. At this stage, the role of independent business entities was downplayed. In a centrally administered plan economy, all enterprises were directly owned and run by the government. There were almost no external financing channels and outside investors. Enterprises were treated as budgetary units to implement centralized economic plans. The Chinese government tried to modify the content and structure of the financial statement via the adoption of the funds balance statement, which replaced the remodeled balance sheet in the 1950s, mainly to facilitate government authorities to carry out economic administrative tasks and fiscal control. Since enterprises, in this era, were not independent commodity producers and relied on governmental appropriations for financing, the primary objective of accounting and reporting was to meet the information needs of government's economic planning and policy control. The information needs of non-government users were generally ignored.

However, the highly centralized planned economy dampened the production initiatives of business enterprises because they were not exposed to market opportunities and pressures, leading to low operating efficiency and poor production outcomes for most state-owned enterprises. As a result, the Chinese economy experienced a prolonged stagnation in the 1960s and 1970s. The Chinese government had to launch large-scale economic reforms in the early 1980s. China opened its markets to the outside world under the new party leadership after the end of the "Cultural Revolution". Since then, badly needed foreign capital and technologies have rejuvenated the Chinese economy. In pace with the rapid progress of economic reforms and convergence with international accounting standards, China began accounting reforms by adopting the advanced accounting practices in the developed economies and reducing the differences between Chinese accounting and internationally accepted practices. Accounting reforms have enhanced the comprehension, relevance and creditability of accounting information, with respect to external investors and other non-government users [Winkle et al. 1994; Black and Gao, 1995; Tang, 2000]. This has contributed to the rapid economic growth in China over the last three decades.

China's economic reforms and business restructuring (e.g., the transition towards a market-oriented economy) led to changes in the objectives and practices of accounting and reporting for Chinese enterprises. In particular, the expanded non-government interest groups resulting from economic diversification and their information demands promoted the development of general- purpose reporting in business accounting with the restoration of the commonly applied balance sheet and other financial statements in China. So Chinese accounting has made rapid progress in its move toward international harmonization and convergence since the early 1980s. Accounting systems and financial reporting practices in China are now broadly aligned with international norms following the restoration of debit–credit, double-entry bookkeeping and Western-style financial statements. The Chinese experience demonstrates that accounting and reporting practices are highly sensitive to particular environmental and institutional changes [Xiang, 1998].

There remain some differences in the content and usage of the balance sheet in China in comparison with Western practices at present. For instance, the primary objective of financial accounting is to provide information to assist investors and creditors in making rational investment and credit decisions in a market economy [FASB, 1978]. However, since state ownership remains dominant in many business enterprises in China, governments at different levels are still the primary users and accounting must be a viable tool for governmental administration. Although three major user groups (i.e., the government, investors/creditors, and enterprise management) were outlined in the *Chinese Basic Accounting Standards* (equivalent to the conceptual framework of financial reporting for IFRS), the main focus of Chinese accounting remains on governmental users as the information needs of the latter two groups are secondary in nature [Davidson et al., 1996;

Tang, 2000]. Thus the content and structure of primary financial statements in China are still heavily influenced by the information needs of governments and their agencies, and the classifications and presentation of assets, liabilities and owners' equity have not fully departed from that of the former funds accounting. Certain business transactions or accounting events derived from market economies, such as asset revaluation and prudent loss provisions, are in use with restrictions.

Although the IASB recognized in 2009 that Chinese accounting standards are almost equivalent to the international financial reporting standards [MoF, 2010], differences exist in the classification and presentation of some traditional balance sheet elements or items. For instance, there is no separate presentation of varied information bases, fair value has not been fully adopted in Chinese accounting, provision for asset impairment is restricted, and balance sheet presentation is still overly disaggregated to accommodate the administration needs of government agencies. Nonetheless, accounting and reporting should serve the information needs of all users, particularly investors and creditors who provide external financing. A business enterprise has various external interest groups who have to make different decisions. General-purpose financial statements can help to fulfill the primary objectives of financial reporting [FASB, 2011]. Therefore there is a room for further improvement in Chinese accounting, including the presentation and usage of the balance sheet, so long as China continues to move toward economic integration with world markets.

The preparation and use of the balance sheet, to report the financial position of business entities, depend technically on the principles of double-entry bookkeeping; especially the accounting equation of *Assets = Liabilities + Owner's equity*. Nonetheless, the more fundamental nature of the balance sheet is to accommodate the accounting needs of contemporary business entities that emerged from the separation of ownership and management [Paton and Littleton, 1940]. An enterprise, as a relatively independent business entity in a market economy, must have its resources (i.e., assets of varied types) to pursue business operations, and it should demonstrate the interest claims of its owners or creditors who provide the resources. These users are particularly concerned about a firm's net worth and its liquidity and solvency that can be portrayed on a balance sheet for a specific date. Following business restructuring and incorporation process in the course of economic reforms since the mid-1980s, Chinese enterprises must now report to expanded external stakeholders (both governmental and non-governmental) and provide reliable and relevant information about their resources, obligations and equity interests. At any point of time, the resources in use and claims against them are just two dimensions of the same economic substance, and they must always be equal. This is the essential property of the balance sheet, while the principles of double-entry bookkeeping simply provide a technical framework to balance the resources owned (or controlled) and the interest claims against them on the reporting date.

In the evolution of contemporary accounting, dramatic changes in social, political and economic systems may cause modifications in the role and utility of the balance sheet, but the basic structure of this statement has prevailed as it should reflect the nature of business enterprises as independent commodity producers with separation of ownership and management. We believe this is the essential characteristic of the balance sheet and it has been confirmed by the Chinese experience over the last 60 years. In China, we expect to see business ownership and financing structures will evolve to facilitate enterprises to become really independent business entities in the market. Enterprises will increasingly expand their ties with non-government interest groups and need to provide general-purpose financial reports to assist all users make rational economic decisions. This should lead to further alignment of the balance sheet and other financial statements in Chinese accounting with the common practices in market economies around the world.

It should be noted that the evolution of the balance sheet in China might have implications for the development of international accounting and reporting. As illustrated earlier, the content and structure of the balance sheet in China were once extremely detailed in terms of the line items in regards to varied funding sources and usages and the presentation of assets and liabilities was in multiple sections separately (i.e., segregated by major administration functions or purposes). This presentation format is to satisfy the different requirements of governmental control and restrictions over the resources entrusted to business enterprises, and demonstrate the fulfillment of an enterprise's obligations in terms of specific administrative purposes and functions. However, the modified presentations often caused confusion and were difficult to understand by investors, creditors and other non-government users [Scapens and Hao, 1995; Tang and Lau, 2000]. This was one reason for the reinstatement of the Western-style balance sheet in Chinese accounting in the early 1990s.

Internationally, the IASB and FASB have recently proposed dramatic changes to the presentation of primary financial statements, with multiple section layouts and segregated classifications for operating, investing and financing activities, income tax, and discontinued operations, in order to provide more detailed information on fund flows and changing results among the varied categories [IASB and FASB, 2008].[22] The underlying rationales include 'cohesiveness' in financial statement presentation and disaggregation of information to enhance the understandability and usefulness for external users. The proposed new structure of the balance sheet (i.e., the statement of financial position), has led to heated debates in the Chinese accounting profession. Some scholars support the IASB and FASB proposal as they contend that the new structure can enhance the information content of financial statements [Chen, 2009]. However, many others are skeptical about the proposed changes. They argue, in particular, that the presentation format, with assets and liabilities listed and balanced under multiple segregated sections in the balance sheet, is, to a certain extent, similar to the multiple-section balancing structure in the remodeled Chinese balance sheet used in the 1950s and 1960s. The presentation format was found to be undesirable in practice, especially from the perspective of business accounting [Xie, 2010]. This format of balance sheet in Chinese accounting failed to produce a clear and complete picture of the resources and interest claims against them for external capital providers (e.g., investors and creditors) and other stakeholders. Drastic change in the articulation of the balance sheet elements among assets, liabilities and owner’s equity with more complicated multiple segregated-sections may diminish easy use of the statement, make it harder to understand, and even impair its relevance to users’ decision making.

It is further argued that each of the primary financial statements has to provide specific information serving different reporting purposes. The balance sheet portrays a firm’s financial position and net asset change on the reporting date, the income statement reports the operating results, and the cash flow statement illustrates the cash generation and usage by different

[22] IASB and FASB originally planned to complete the new standard for financial statement presentation by mid-2011, but the joint project has been delayed after public consultation in 2010 due to strong reservations expressed by the constituents [FASB, 2011].

business activities over a certain period of time. There are specific articulations among the three primary financial statements, and simply requiring a cohesive classification or similar grouping among them may artificially break down the coherent structure underlying the financial statements. This may result in more confusions or misinterpretations instead of enhancing the understandability and usefulness of the financial statements. For instance, users may not easily and intuitively find out what are the total resources and related interest claims of a firm from the balance sheet presentation with multiple segregated sections. This, in fact, deviates from the initial objective of enhancing cohesiveness and informativeness of the financial statements as proposed by IASB and FASB.

Additional useful information could better be supplemented through footnote disclosures with auxiliary schedules accompanying the main line items in the financial statements. The evolution of the balance sheet from the remodeled multiple-section format in the 1950s to the restoration of the traditional structure in the 1990s demonstrates that the balance sheet reforms in China, with an overemphasis on information disaggregation and segregation by administrative function, were not successful and the Chinese experience could be a lesson for accounting standard setters and practitioners in other countries.

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THE CRISIS AND FAIR VALUES: ECHOES OF EARLY TWENTIETH CENTURY DEBATES?

Abstract: The recent global financial crisis has led to extensive criticism of the role of accounting and its use of fair value measurement in causing and spreading the crisis. This paper argues that the debate surrounding fair value vs. historic cost, and *relevance* versus *reliability*, is nothing new; it was at the center of early accounting discussions in the AAA (especially by A.C. Littleton and W.A. Paton), the AICPA (especially G.O. May), and the SEC. Although prominent accounting scholars and practitioners in postdepression 1929 focused on the use of historic cost, the paper discusses the decision of the IASB/FASB to move reliability to a secondary characteristic in its recent conceptual framework. This action ignores lessons learned from a century of research, teaching, and practice of accounting.

INTRODUCTION

The world is barely emerging from the most severe global economic downturn in living memory, a banking crisis that resulted from the collapse of the U.S. housing market in 2008 that subsequently spread to the rest of the world. Several contributory factors have been identified, of which the most widely accepted include unprecedented low long term real interest rates related to the excess supply of savings from Asian exporting economies [Wolf, 2009]; excessively lax monetary policy [Cooper, 2008]; the housing bubble and associated boom in consumer and other forms of credit, masking problems in loan quality [Demyanyk and Van Hemert, 2009]; undercapitalization of banks and excessive maturity mismatch [Brunnermeier, 2008]; an explosion of new structured instruments many of which were poorly understood, notably by rating agencies many of whose ratings now appear suspect [Gorton, 2008; Mason and Rosner, 2007]; and weaknesses in regulation and supervision that failed to prevent some individual institutions taking on extremely risky exposures [Brunnermeier et. al., 2009].

Given that accounting is critical for well-functioning capital markets, there has been extensive criticism of its role in the crisis. A large number of capital market participants, regulators, politicians, and media pundits have blamed the use of fair value accounting as a major cause of the crisis [Whalen, 2008; Forbes, 2009; Katz, 2008; Johnson and Leone, 2009].[1] However, the accounting profession, most accounting academics, the Securities and Exchange Committee (SEC), and other commentators have consistently asserted that accounting should not be blamed [Badertscher et al., 2010; Barth and Landsman, 2010; Laux and Leuz, 2010; SEC, 2008; Turner, 2008; Veron, 2008]. Their position has been that the function of accounting is merely to record events and that the stability of financial markets rests on bank regulation, not accounting.

This criticism of accounting is the result of its intellectual trajectory in which the fair value paradigm replaced the historic cost paradigm [Barlev and Haddad, 2003]. Before the crisis, experts posited that fair value improved relevance and augmented the stewardship function of accounting numbers, reduced agency costs, and boosted managerial efficiency. This paper examines the role of fair value accounting in the economic crisis and argues that the debate of relevance (as in the usage of fair value) versus reliability (as it pertains to historic cost) is not new but reflects the discussions from the early part of the 20th century. Referring to the works of A.C. Littleton, W.A. Paton, and G.O. May, this paper highlights the implications of this ongoing debate for accounting. Moreover, it outlines current developments in the conceptual framework of the Financial Accounting Standards Board (FASB)/International Accounting Standards Board (IASB) that moved *reliability* to a secondary characteristic, giving more emphasis to *relevance,* and indirectly, to fair value. Thus, the current FASB/IASB framework ignores lessons learned from almost a century of accounting research and practice, including those from the Great Depression of 1929.

This paper addresses the following research question: how does the recent subprime crisis, and ensuing fair value vs. historic cost debate, relate to similar debates in the post-depression

[1] Speaking at an SEC panel on mark-to-market accounting and the recent period of market turmoil, William Isaac, FDIC chairman from 1978 to 1985, exclaimed: "I gotta tell you that I can't come up with any other answer than that the accounting system is destroying too much capital, and therefore diminishing bank lending capacity by some $5 trillion, It's due to the accounting system, and I can't come up with any other explanation." See Katz [2008].

era. Additionally, the paper examines how developments in the IASB/FASB conceptual framework further undermine the efficacy of accounting from the perspective of the above mentioned debate. In doing so, the paper aims to contribute to the extant accounting literature, and in turn to the ongoing fair value vs. historic cost debate, by shedding light on an enormously similar turn of events almost a century ago, the reverberations of which are very much applicable in modern times.

The remainder of this paper is organized as follows: The next section discusses the recent debate on fair value. The third section draws on the early cost versus value debate, and the following section examines the conceptual framework of the FASB/IASB and its implications for current standard setting. The final section offers a discussion and conclusion.

THE FAIR VALUE DEBATE

Factors leading to the subprime crisis: The burst of the credit bubble and the following subprime mortgage crisis have resulted in large-scale impairment and credit-related write-downs on assets held by banks in the United States and around the world.[2] A key question regarding this crisis is why credit traders and bank managers, who were well aware that the boom in credit conditions could not last forever, did not take steps to limit their exposure before the bubble eventually burst. Some argue that fair value accounting contributed to this failure to act and thus was a main cause of the crisis.

Until the puncturing of the bubble in the summer of 2008, the extension of riskier forms of credit—subprime mortgage lending and securitization, leveraged lending used for financing private equity deals, and trading of collateralized debt obligation (CDO) and similar assets—occurred at a record pace. It seems that bankers were simply pursuing ever more daring strategies to continue to increase their compensation without regard to long-term consequences.[3] These problems followed a major

[2] Milne (2009) finds that total impairments and credit-related write-downs by 28 of the world's largest banks, including those of the insurance company AIG, recorded in 2007 and 2008 accounts totalled nearly $1 trillion. The International Monetary Fund (IMF) projects that total credit-related losses across the financial services industry will eventually rise to $2.2 trillion [IMF, 2009]. Some other projections (e.g., that by Nouriel Roubini) are even more pessimistic.

[3] See, for example, Buttonwood [2009] and Institute of International Finance [2009] presenting survey results in which bankers admit the existence of compensation plans that encouraged high risk taking with little regard to the long-term success of their investments.

structural shift in U.S. banking policies during the 1990s. Relaxation and erosion of regulatory restrictions gradually allowed commercial banks to engage in a range of new fee-earning activities, such as underwriting municipal bonds, commercial paper, mortgage-backed and asset-backed securities; the sale of insurance products; discount brokering; and managing and advising open- and close-ended mutual funds [Yeager et al., 2007]. Banks were also able to engage in other investment banking activities, such as proprietary trading, through Section 20 subsidiaries. These changes resulted from the passage of the Financial Services Modernization Act of 1999, which effectively abolished the separation between commercial and investment banking that resulted from the adoption of the Glass-Steagall Act of 1933 [Gibson et al., 1999]. Subsequently, from 2002 to 2007, commercial banks increasingly securitized their various loan exposures, packaging them into agency and private-label mortgage-backed securities (MBS) and asset-backed securities with a correspondingly rapid expansion in the use of broker-dealer balance sheets [Adrian and Song, 2009]. These changes both served as the basis for the credit bubble and set the stage for the subsequent credit crisis.

Fair Values and the Crisis: The resulting shift in bank strategy during the 1990s toward traded credit exposures changed the composition of banks' balance sheets and income shown on them. Consequently, the effective measurement of bank performance—and, hence, of executive and trader compensation—relied increasingly on fair value accounting. It is important to discuss the applicable requirements used under existing accounting standards concerning the dependence of accounting treatment on managerial intent. *Trading securities* are assets measured at fair value on balance sheets with changes taken to income; trading gains and losses, inclusive of changes in fair values for trading securities, are reported as trading income on the income statement. Importantly, according to *SFAS No. 115*, trading securities are purchased with the intent to make short-term profits. *Available-for-sale assets (AFS)* are measured at fair value on the balance sheet date with changes taken to comprehensive income (thus bypassing income). These AFSs are purchased for medium- to long-term investments. *Impairments* to AFS securities are typically taken to trading income, which are either due to an irreversible decline in available market values or are based on declines in forecasted cash flows.

To appreciate the impact fair value has on banks' financial statements, as of the first quarter of 2008, 50% of assets reported in fair value changes were recognized as income [SEC, 2008]. It is crucial to stress these fair values did not represent *realized* cash flows but *estimates* of future cash flows that would be properly discounted.[4] Finally, and of specific concern to many users of banks' financial statements, whenever quoted market prices are not available, banks use fair value accounting in the context of "mark to model," thus requiring valuation techniques.[5]

The role of fair value in the crisis has come under fierce criticism, leading to calls from both sides of the Atlantic for the suspension of its use. Standard & Poor's presentation at a recent SEC roundtable expressed the current criticism of fair value accounting:

> We support the basic premise that fair value ...is a relevant basis of accounting for financial assets and liabilities. However, we recognize that accounting for assets and liabilities at theoretical market-price measures may produce results that could mask the underlying economics for certain businesses and activities, especially during volatile and uncertain economic and market conditions.[6]

If *reliability* of information is desired, historical costs are more useful.[7] If its *relevance* is desired, fair value is more useful. However, during the recent crisis, a great deal of criticism was leveled at accounting and its use of fair value in valuing investment securities. The crisis raised the discussion to an important debate. On one side, accounting professionals, academics, and

[4] Derivatives are also presented at fair value. If they are stand alone or part of fair value hedges, any gain or loss on them is to be recognized in income. Gains and losses on derivatives used in cash flow hedges are to be taken to equity.

[5] Such calculations include the use of financial/mathematical models grounded on a variety of assumptions, e.g., the Black-Scholes formula for valuing executive stock options. Whenever market values are not observable, financial models are employed which are referred to in *Topic 820* (formally known as *FAS No. 157*), relying on Level 2 and Level 3 inputs. A study by the SEC founds that for a sample of 50 U.S. financial institutions, about 45% of them, measured total assets at fair value. Furthermore, more than 85% of the fair values of these assets were assessed using either Level 2 or Level 3 inputs (SEC, 2008).

[6] "Report and Recommendations Pursuant to Section 133 of the Emergency Economic Stabilization Act of 2008: Study on Mark-To-Market Accounting," Office of the chief accountant, SEC 2008.

[7] It can be argued that historic cost accounting causes reliability concerns because managers can smooth income by manipulating the timing of asset sales. However, this type of reliability involves actual managerial actions rather than simple manipulation of model inputs.

the SEC posited that the crisis was caused not by the use of fair value accounting but by unscrupulous managers' actions. On the other side of the debate, bankers, various market players, and politicians blamed overleveraging first because of the increased use of fair value and the "death spiral" caused by declining fair values as the second one.[8]

Overleveraging resulting from the use of fair values signifies that rising asset prices, such as those of real estate, lead to a corresponding inflation of balance sheets. Consequently, firms with healthy short-term financial positions can leverage upward without fear of future downturns or procyclical movements in prices. The *death spiral* signifies that reductions in asset prices lead to circular and contagious effects across a host of related firms. In effect, the death spiral results when one firm's fire sale results in price reductions that affect a host of entities, leading to a systemic decrease in prices and a deterioration of financial position. Once asset prices drop, other firms are forced to sell their remaining assets to satisfy liquidity concerns, leading to increased pressure on prices for other asset classes, and, by association, pressure on other firms holding similar securities. Historic cost accounting often shields firms from such a contagious downward spiral.

Recently, other accounting transactions that utilize fair value, such as off-balance-sheet transactions, have also been criticized. Although this continues to this day, such transactions received considerable negative publicity related to the fall of Enron in 2001. For example, evidence suggests that before the 2008 crisis, banks had around US$5,000 billion of assets and liabilities in off-balance-sheet accounts; those by Citigroup alone represented about US$1.23 trillion of off-balance-sheet assets [Sikka, 2009].[9]

From an auditing point of view, even before the crisis the accounting profession was aware of the difficulties and limitations in auditing fair values [Martin et al., 2006]. For instance, the Public Company Accounting Oversight Board (PCAOB), the oversight regulator of the audit profession set up by the Sarbanes-Oxley Act of 2002, had already noted that the expanded use of structured securities "put reliable auditing of financial

[8] Academic evidence so far has found contradictory evidence of a death spiral [Laux and Leuz, 2009; Sapra, 2009]. Nevertheless, the anecdotal evidence concerning the death spiral remains constant in the view of the public and regulators.

[9] These include the "off-loading" of MBS to third parties while offering some guarantees and retaining some eventual ownership interest.

reporting at risk" [Johnson, 2007].

Audit firms in their role as advisers were actively involved in a trillion dollars' worth of securitization and off-balance-sheet vehicles, which could have distorted investors' and regulators' perception of the severity of the problems [Arnold, 2009]. For instance, Deloitte & Touche advertises that the firm has been involved in more than 14,000 securitizations worth trillions of dollars. A multitude of third parties relies on auditors to ensure that financial statements present a true and fair view of operations and financial condition. By certifying fair value numbers based on a myriad of assumptions and models, however, auditors have added another level of legitimacy to statements that actually masked underlying risks. For instance, in 2009 and 2008, the Federal Deposit Insurance Corporation put into receivership 14 and 25 banks, respectively, with total assets of $170 billion and $372 billion [FDIC, 2009]. Although auditors act as watchdogs on behalf of third parties [Kalbers and Fogarty, 1998], auditors evidently failed to do so. Instead, audit firms helped their clients move toxic assets off the financial statements. As a consequence of auditors' actions or lack of them, financial statements may have misrepresented or failed to reflect various financial institutions' leverage or risk. Acting in such contrasting roles as auditing and advising off-balance-sheet transactions for clients is paradoxical regarding the role of accounting.

A 2,200-page report submitted in 2010 to the Bankruptcy Court of the Southern District of New York illustrates how the quality of auditing could have been compromised in the period leading to the crisis. The court asked Anton R. Valukas, the examiner, who is also the chair of the law firm Jenner and Brock LLP, to investigate the demise of Lehman Brothers; Valukas asserted that Lehman's financial statements were misleading. He criticized executives who certified the financial statements and their auditors, in this case Ernst & Young. A key element in Valukas' assessment is Ernst &Young's handling of Lehman's structured securities and off-balance-sheet transactions: Ernst & Young failed to question and challenge improper or inadequate disclosures in the firm's financial statements and stood silent rather than investigate the merits of its accounting for sale and repurchases (repos).[10]

[10] Repos are agreements by which one party transfers an asset or security to another party as collateral for a short-term borrowing of cash and agrees to repay the cash and take back the collateral at a specific point in time.

Repos allowed Lehman to significantly enhance its capitalization ratio and hide its true level of debt. Although it can be argued that Lehman´s collapse was unavoidable, it does appear that the audit function failed to sound early warning alarms of impeding danger to alert investors and other stakeholders. Overleveraged positions coupled with investments into highly risky and illiquid assets and off-balance-sheet transactions created an inevitable time bomb [Tibman, 2009]. Early warning during the auditing process could have allowed Lehman´s problems to surface earlier when the market could have better absorbed the firm's problems, potentially allowing it to survive.

Financial instruments are very difficult to value, and methods for doing so vary. Consequently, modern auditing determines values of complex financial instruments whose reported number depends on the specific methodology used. These methodologies include making a multitude of assumptions and estimates about uncertain future outcomes. The specific valuation technique that a client employs could be one of many acceptable methodologies the auditor might use to certify amounts, which in turn could vary by billions of dollars had a different technique been used. Such complex instruments have been primary factors in the collapse of a number of financial and nonfinancial firms, such as Barings, Enron, and Parmalat [Deakin and Konzelmann, 2004; Zhang, 1995]. We have learned from the U.S. government-initiated bailout of long-term capital management that even economists who are Nobel Prize Laureates and the "fathers" of structured financial instruments failed in their valuation of such complex instruments [Dunbar, 2000]. If Nobel Prize recipients failed, assuming that auditors are better equipped to audit/value such instruments is quite bold [Martin et al., 2006]. We have possibly reached the limits of what conventional auditing can do [Sikka, 2009]. Additionally, if markets were inactive, the use of "price" indicators would be unnecessary because without "markets," trading is frozen. Consequently, cost valuation/assessment could depend more on models and assumptions than on transacted prices (as historic cost provides). The result would increase the chance of reporting unreliable numbers and material misstatements. Bruce Wasserstein, CEO of Lazard, stated October 30, 2008, that accounting has become a "new exercise in creative fiction" in which banks have balance sheets congested by "sludge" assets.[11]

When it comes to disclosures relating to fair value, it is still

[11] See Giannone and Davies [2008].

unclear whether those made by financial institutions during the crisis were deceptive or incomplete. Nevertheless, providing additional disclosure does not seem to solve the problem. At its core is the conflict between the quantity of disclosures versus its quality [Bukh, 2003]. In efficient markets, disclosures can reduce friction and alleviate information asymmetry between sellers and purchasers. This is the standard response because stock prices are thought to "instantaneously reflect all publicly available information relevant to the value of traded stocks" [Fama, 1970]. But not all types of information have the same value relevance and processing costs [Merton, 1986]. Complex financial products can undermine such informational efficiency. The 2008 crisis has well illustrated that such products exist with few informed participants in thinly traded markets. Thus, Gilson and Kraakman [1984] argue that a structured financial product would take more time for the market to understand as compared to a change in interest rates by the Federal Reserve. Hence the usage of fair values is problematic not only from a measurement point of view, but also from a disclosure perspective, given the inherent difficulty in clearly articulating positions and exposures.

Given the criticisms of fair value in its alleged role in the crisis, Congress voted to suppress fair value accounting rules through the Emergency Economic Stabilization Act of 2008, claiming issues of social welfare and investor protection. Moreover, this act required the SEC to review the process by which the FASB promulgates accounting standards. A congressional hearing on the usage and implication of fair value accounting took place, with the objective that fair value accounting be modified, with the threat to create a bipartisan Federal Accounting Oversight Board to supervise accounting practices [Bougen and Young, 2012].

Under this immense political pressure, reminiscent of Congress's threat to disband the FASB over the stock option expensing debacle in the early nineties, the FASB responded by issuing the FASB Staff Position 115-2 and 124-2, entitled "Recognition and Presentation of Other-Than-Temporary Impairments" which addresses concerns regarding undue impairments of financial assets in times of crises. More specifically, entities do not need to report losses on the income statement, if they can demonstrate that they are able to hold the asset until such a time that permits price recovery. Consequently, although fair values have been the modus operandi for a good part of the last two decades, their use was "conveniently" relaxed in times of duress.

FAIR VALUE VERSUS HISTORIC COST: ECHOES OF LAST CENTURY DEBATES

The debate in the literature concerning the use of fair value versus historic cost has a long history, where the current debate on the subject parallels the debate for nearly a century. The revenue Acts of the early part of the 20th century, particularly the one of 1918, led to the establishment of an income tax on corporate profits. Consequently, the historic cost concept directly resulted from the desire of powerful businesses to minimize taxes rather than pay periodic profit on unrealized gains. During that era, this issue was a focal point in the accounting debate regarding current value versus cost. The debate over what constitutes correct accounting practice fueled the creation of the U.S. Securities Exchange (SEC) in 1934 with the goal to establish structured and systematic rules for income determination. Additionally, the requirement for public companies to publish financial statements supported by an independent accountant's certificate regarding the statements' content accuracy led some accounting scholars to advocate the use of accounting information that is verifiable and based on "objective" principles—hence, historical cost [see May 1943b; Reighard, 1932].

The historic cost concept fitted well in the regulatory environment of that time. For example, in 1935, the SEC insisted on the use of historic cost so that financial statements would not contain "misleading disclosures" [Kripke, 1970]. In 1936, the American Accounting Association (AAA) under the presidency of Erik Kohler issued "A Tentative Statement of Accounting Principles Affecting Corporate Reports." Although the American Institute of Accountants (AIA) disliked this memorandum because it would result in the AIA's loss of power and newly found competition on standards and principles that would affect its practitioners, the SEC received it well and praised it. The publication proclaimed historic cost to be a fundamental accounting principle.

Support for historic cost drew ambivalent responses from a variety of sources. For example, G.O. May consistently criticized the notion of the superiority of historic cost over fair value.[12]

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[12] Hall of Fame inductee George O. May, with a vast academic output was a practitioner with the most significant effect on accounting practice. As a vice president of the AIA (now the AICPA) and a senior partner in Price Waterhouse & Co., he convinced the SEC of the need for uniform accounting standards that should be set by the accounting profession. He also helped promulgate through the Committee on Accounting Procedure early authoritative guidance on accounting rules and principles.

Rather, he favored an optimal combination of the two. For instance, he favored using the lower-of-cost-or-market method for inventory valuation, which was a common practice in England, and employing historic cost for valuing other fixed assets [May, 1943].

May's view on the valuation versus costing role of accounting offers insight on current debates related to accounting methodology. He argued that in pioneer economies whose capital is scarce and growth is rapid, the valuation role of accounting is important, but in established economies whose firms are large and complex, valuation approaches to accounting are impractical and accounting is better suited to costing. This is seen today in the difficulties and the inadequacy of accounting in valuing high-tech start-ups. Moreover, when discussing the stewardship role of accounting, May observed a decline in accounting's role for credit providers versus the rising role for equity providers (and a resultant emphasis on fair value), which continues to this day [May, 1945].

In writing on the concept of business income, May discussed the various ways in which accountants, economists, and businesspeople determine profit. An accountant would not accept a "discounting of the future" methodology when determining income because that would entail "counting chicks before they are hatched" [May, 1945: p. 3]. In addition, discount rates and realizations are subjective and hence unverifiable. In his later work, May focused on the concept of income, and discussed separating core income due to operations from non-core components such as created surplus and price appreciation. In recent years, current statements on comprehensive income, mark-to-market accounting, and, to a lesser extent, mark-to-model reflect some of the early views on whether price appreciation constitutes a component of income [May, 1954].

In contrast, A.C. Littleton's early work focused on theories of profit [1928] and whether an income figure, or a focus on the balance sheet, has more significance. His early work also touched on the concept of risk as a determinant of profits without dealing with accounting for risk. One of Littleton's main arguments during 30 years of writing was for a cost-based profit calculation as opposed to a value-based one because value-based profit changes and is hard to verify [Littleton, 1928, 1935, 1958]. As an historic cost advocate, Littleton made an early and persuasive argument for cost-based accounting [Bedford and Ziegler, 1975]. Therefore, Littleton considered the primary function of accounting to be record keeping and the disclosure of such records but never valuation.

In contrast to A.C. Littleton's view on profit, W.A. Paton, an economist by training, considered profit to be a change in the economic value of the business between the beginning and the end of the period [Paton, 1932]. Hence, Paton equated "cost" with "value." As early as 1936 in his writings on valuation [Paton, 1936], he supported an income-based approach to valuation, ignoring the cost versus value debate in regard to assets and liabilities. For him, earning power was key. His early work "Valuation of the Business Enterprise" preceded by one issue of *The Accounting Review* another famous work, Preinreich's 1936 article entitled "The Fair Value and Yield of Common Stock."

Although Littleton's and Paton's views on what constituted profit differed, their 1940 joint monograph, "An Introduction to Corporate Accounting Standards," revealed their agreement on the role of accounting. They believed that accounting is not to measure cost price, replacement cost, or liquidation value but to measure "earnings power." From this perspective comes the position of the income statement as the most important financial statement [Paton and Littleton, 1940]. This work, reprinted 16 times, has become a true classic of far-reaching consequence in shaping the world of accounting, in the United States and internationally. The monograph's most important contribution is setting historic cost as the basis of accounting.

Paton and Littleton's work superseded the earlier 1936 monograph "A Tentative Statement of Accounting Principles Affecting Corporate Reports" by the AAA, which was widely criticized for its lack of a basic unifying theory. Paton and Littleton stated in the preface to their monograph that they set out to fill this void. One of the main emphases in Chapters 2 and 6 was the need for "verifiable and objective" information. Consequently, they supported historic cost because they are verifiable and objective and are based on a transaction that has occurred, unlike replacement cost, liquidation value, market values, and other valuation methods (by extension, fair values such as those in use today). In opposition to the latter, they rejected the concept of *appreciation* because it provides no claims to meet creditors, suppliers, and customers. Their final argument in support of historic cost rested on the concept of *accountability*: historic cost provides easily verifiable numbers that form the basis of sound accountability. Their only exception to the use of historic cost was for reorganization when assets are reassessed and revalued according to prevailing price conditions. This principle continues today in business mergers and acquisitions.

Some might argue that Littleton's stance on cost versus value as outlined in "An Introduction to Corporate Accounting Standards" might have prevailed. The monograph's approval of historic cost, which was then more widely accepted in practice, led it to become the basic paradigm in accounting education and practice, for much of the 20th century. However, in their final chapter, entitled "Interpretation," the authors, chiefly Paton, objectively discussed the advantages and disadvantages of replacement cost accounting and "common dollar" accounting. As to the latter, they stated, "At the most what is needed is a special report supplementing the usual periodic statements and designed to trace the main effects of general price movements upon the affairs of the enterprise" [1940, p. 141]. Although this was a bold proposal for that time [Zeff, 2007], the monograph was widely received and has enjoyed an enduring legacy.

Most importantly, Paton and Littleton's work came at a time when pressure from the federal government on private accounting bodies, to establish formal accounting guidelines, had reached a pinnacle. Hence, practitioners and academics alike quickly accepted the use of historic cost because it provided a "lowest common denominator" solution. The bankruptcy in the early 1930s of Kreuger and Toll (i.e., Swedish Match), a multibillion-dollar entity with 400 subsidiaries, no doubt was fresh in people's minds. Kreuger and Toll had kept few financial records and freely used derivatives and other fair value-based transactions, creating a gigantic fraud [Flesher and Flesher, 1986]. While the United States was still reeling from the scandals related to Kreuger and newly created derivatives schemes and fluctuating prices, historic cost provided a simple solution in the postdepression regulatory environment.

The Securities Exchange Act of 1934 created the SEC to restore investor confidence in the stock market after its 1929 crash, which had been accompanied by financial manipulations, especially the creative use of asset write-ups that were used to inflate income. The SEC was also influential in making historic cost a key in U.S. accounting standards, and it eventually dictated accounting rules for the larger part of the 20th century [Zeff, 2007]. Robert Healy, one of the founding members of the SEC, abhorred the creation of unrealized gains, many of which were accompanied by dividend payments and had wreaked havoc during the 1929 market crash.[13] Healy's strong view asserting

[13] Healy was the director of the Federal Trade Commission's and U.S. Congress sponsored investigation into fraud in accounting in the years leading to the

"the purpose of accounting is to account—not to present opinions of value" [Healy, 1938] dominated the SEC's intellectual trajectory in the 1930s and 1940s.

Although it is difficult to isolate the effect of the SEC from that of the work of the AAA, the AAA proclaimed in its 1936 statement, "If values other than unamortized [historical] costs are to be quoted they should be expressed in financial statements only as collateral notations for informative purposes" [AAA, 1936, p. 189]. Hence, the stance by Healy and the SEC on historic cost became rooted in accounting standards of the 1930s and early 1940s, and was a direct consequence of the crash and ensuing great depression.

This firm move toward historic cost was supported by both the SEC and the FTC, both of which opposed arbitrary asset markups, and was also supported by the executive committee of the AAA, and where Paton and Littleton (1940) provided a conceptual rationale for its wide usage. Ten years after the great depression, the practice of upward revaluation of assets had fully disappeared from U.S. based financial reporting entities [Swieringa, 2011]. Future generations of SEC members would accept only historic cost approaches in determining value [Zeff, 2007]. Until the inflationary periods of the 1970s, the SEC rarely accepted departures from historic cost accounting.

DEVELOPMENTS IN THE IASB/FASB FRAMEWORK POSTCRISIS

The preceding discussion clearly shows that the early fair value versus historic cost debates resulted in favor of historic cost. The two primary reasons for its acceptance were the post-depression era need for reliability and the belief that opinions on value should not be offered held by accountants and accepted by the SEC and accounting practice. As noted, this decision affecting the accounting profession has lasted almost a century but has recently been challenged by the acceptance of fair value accounting, especially in the FASB/IASB conceptual framework.

After a joint meeting on September 18, 2002, the IASB and the FASB issued a joint Memorandum of Understanding, commonly known as the Norwalk Agreement. It officially and explicitly expressed the interest of both standard setters to move toward full convergence and cooperation on joint projects to achieve the goal of developing a single set of high-quality in-

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crash and great depression.

ternational accounting standards by 2011 [FASB, 2002]. When finalized, this framework is to be composed of seven statements regarding financial accounting concepts and will supersede the FASB concept statements of 1978–2000 and the 1989 Framework for the Preparation and Presentation of Financial Statements by the International Accounting Standards Committee, the IASB's predecessor.

Since beginning work in 2002, the IASB and the FASB have experienced several obstacles in developing this joint conceptual framework that have slowed their progress. Global standards indicate acceptance of fair value, which the international financial reporting standards (IFRS) advocate instead of historic cost, on which U.S. generally accepted accounting principles (GAAP) are based. The FASB's conceptual framework, outlined in Concept Statements Nos. 1–7 dating from the 1970s, has been criticized by both academics and practitioners [Henry and Holzmann, 2012; Shanklin et al., 2011]. Similarly, the IASB's conceptual document, Framework for the Preparation and Presentation of Financial Statements dating from the late 1980s, has also received its share of criticism because of its limitations and brevity [Kaminski and Carpenter, 2011].

While some progress has been made, the project has not been completed because of these obstacles. The first progress report that served as a road map for the complete plan was issued in 2006 and the second in 2008, during the height of the financial crisis. In 2006, the FASB issued a document outlining new changes to the joint IASB/FASB conceptual framework. Recognizing this document's significance, the AAA Financial Accounting Standards Committee published a critical analysis of it. The committee argued that if the proposed changes were to be adopted, they "will serve to move accounting increasingly toward an approach that emphasizes the balance sheet rather than the income statement, emphasizes investment in corporate equities, and de-emphasizes the stewardship role of accounting" [Benston et al., 2007, p. 229].

The issue of historic cost versus fair value continues to be the focus of debates, particularly after the 2008 economic crisis, which began only a few years after the convergence project did. After the crisis, some have argued that U.S. standard setters should reconsider the move toward convergence, in essence a move toward fair value.

Phase A of the joint conceptual framework, which is in the public domain, describes the "qualitative characteristics of accounting information." As such, accounting should present "decision useful" financial reporting information. Hence, to be useful, it should possess two fundamental qualitative characteristics: relevance and faithful representation. For the first time, the term *reliability,* which was present in both the previous FASB and IASB concept statements, was dropped from the document.[14]

Dropping *reliability,* which includes substance over form, neutrality, and completeness, from the joint conceptual framework makes faithful representation a secondary fundamental qualitative characteristic.[15] *Faithful representation* is the depiction of phenomena in a manner that is complete, neutral, and free from material error [IASB, 2008]. This change of language eradicates the possibility that trade-offs between relevance and reliability might be considered whereas in the past, arguments against the use of fair value were from the perspective that they are not "reliable." Moreover, both *conservatism* and *prudence* are eliminated as desirable characteristics of financial report (since they conflict with neutrality). Reliability is replaced by faithful representation with the stated reason being that it is not possible to explain "reliable."

As it stands, Geoffrey Whittington, a former member of the IASB, argues that:

> The proposed sequence will involve selecting an accounting method first on the basis of highest relevance and then subjecting this selection to a filter based on some absolute minimum level of representational faithfulness. Above this threshold there will be no question of saying that greater representational faithfulness might compensate for less relevance, even if the latter loss is very small" [Whittington, 2008, p. 146].

While Henry and Holzmann [2011], describe the turn of events:

> Yet arguably, the changes in the framework have significance beyond what might be widely understood and may represent a final shot in a battle between fair value and historical cost (p. 94).

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[14] *Reliability* is defined as "information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it purports to represent " [IASC, 1989, par. 31].

[15] It is to be noted that in the FASB's *SFAC No. 2,* reliability is composed of three components: representational faithfulness, verifiability, and neutrality. *Representational faithfulness* is in turn composed of completeness and freedom from bias (FASB, 1980). Hence, in the current framework, the value criteria are reversed: representational faithfulness is elevated while reliability is demoted.

The conceptual framework issued jointly by the FASB/IASB includes many other differences with the original FASB 1978–2000 concept statements (and earlier accounting concepts). Also importantly, the term *as a result of past events* was deleted in the joint framework for being redundant. However, this change of language signifies an important departure in the structure of accounting and financial statements. If economic outcomes no longer need to belong to past transactions, this could enable, for example, the recognition of fair value of internally generated goodwill: patents, human capital, customer and supplier relationships, and so on. Moreover, the FASB/IASB conceptual framework states, "*The usefulness of financial information is enhanced if it is comparable, verifiable, timely, and understandable*." [IASB/FASB conceptual framework, 2010: A33; emphasis added].

Another change affects *verifiability,* which the new framework describes only as an "enhancing" qualitative characteristic in significant contrast to earlier accounting principles. For example, Chapters 2 and 6 of "A Tentative Statement of Accounting Principles Affecting Corporate Reports" [AAA, 1936] stressed the need for "verifiable and objective" information, supporting the use of historic cost because they are verifiable and objective. The current inclusion of verifiability also has resulted in criticism. For example, Andrew Lennard (of the UK's Accounting Standards Board), writes that "Verifiability also seems to be an inadequate substitute for reliability: it requires merely that different observers will reach consensus, and not that they either base their views on reliable evidence or that the method used for 'indirect verification' should be" [2007, p. 53].

Finally, another change of note in the latest version of the conceptual framework, is the change in the primary definition of "users" of financial statements. Where in the prior framework, users had been defined as "present and potential investors, employees, lenders, suppliers and other trade creditors, customers, governments and their agencies and the public" (IASC, 1989, paragraph 9), the 2010 framework defines users as "existing and potential investors, lenders and other creditors" (FASB/IASB, 2010, paragraph OB2). This change in definition, which is non-trivial in nature, further cements the role of fair value in the financial reporting process: capital providers emphasize the return on their capital, as measured through market prices, as the main benchmark in providing the above-mentioned capital.

These changes in the conceptual framework notwithstanding, to date, the goal of full convergence by incorporating IFRS into U.S. GAAP has yet to be fully realized [Zeff, 2007]. The process can be described as being at a standstill, with numerous commentators describing the process as dead, and some arguing for a U-turn [see Selling, 2013].

DISCUSSION: THE WAY FORWARD

The issue of the use of historic cost versus fair value has generated intense debate, dominating the media in unprecedented ways. At the heart of the debate is the position whether only one accounting system reporting performance and financial position can exist. The use of multiple systems for various objectives—whether contracting, control, or performance measurement—is admittedly, problematic [see Belkaoui, 2004; Burchell et al., 1980]. Furthermore, reported financial numbers have far-reaching effects, including social welfare [Solomons, 1991]. If the purpose of accounting is to stimulate growth [Biddle and Hilary, 2006; Plantin et al., 2008], then fair value promotes efficient investment.[16] If the desired outcome is to avoid steep economic declines, such as one allegedly induced by the "death spiral," historic cost is preferred [see Magnan and Markarian, 2011; Sapra, 2009]. Because the current economic outlook prefers the avoidance of steep declines at the expense of speedy growth, acceptance of historic cost could be the way to move forward. Furthermore, fair value is more open to manipulation to meet managerial incentives in reported financial outcomes, as compared to historic cost [Laux and Leuz, 2010]. Consequently, if the objective is to combat the managerial self-interest and zeal that contributed to the most recent financial crisis, perhaps the use of historic cost should be accepted.

Although there are opposing points of view regarding historic cost versus fair value, the strength of the arguments depends on accounting's objective. None of the arguments seems to be ex ante superior but depends on whether we choose investment efficiency versus loss aversion or reliability versus relevance. In terms of reliability, accounting did a poor job in measuring asset values and violated the convention of conservatism because managers appear to have used fair value accounting to inflate numbers from their myriad of assumptions and inputs [Hildyard, 2008, p. 30].[17] Additionally, in the recent economic

[16] Fair value is useful for firm valuation, which is an objective of GAAP. Proper valuation, in turn, enhances efficient investment allocation

[17] See Magnan (2009) and Magnan and Thornton (2010) for a review of empirical evidence on this issue.

downturn, politicians called for the suspension of fair value accounting because of allegations of its cause of a death spiral.

Because having different accounting systems for different macroeconomic conditions is not possible and switching back and forth between systems is not desirable, the only solution appears to be to revert to the use of historic cost. If the use of fair value is an important element in firms' contracting/investing environment, these values can be disclosed in the footnotes and in supplemental voluntary disclosures in which the market would find information for valuing the efficacy of fair values and decide on its usefulness. Such remedies echo old debates with respect to the use of historic cost or fair value as highlighted in the work of Paton and Littleton who stated that "common dollar accounting" [1940] needs to be relegated to supplementary disclosures where the information is available for all users.

However, other intermediary solutions could also be possible. For example, for Level 1 assets that are fairly liquid and have fewer reliability issues, fair value can be obtained from current market.[18] The use of fair value is possible and even desirable provided that proper disclosures explain positions and the extent of exposure. However, because of the reliability argument for Level 2 and Level 3 assets, only historic cost could be desirable.[19]

Nevertheless, using mixed measurement models have long found opposition from intellectual purists [see Power, 2010]. He argues that fair value accounting changes a transaction-based measurement system to an economic valuation system. However, valuation is a purpose that is beyond the scope of financial reporting, as per prior conceptual frameworks [FASB 1978, para. 41]. The use of historic cost is not per se detrimental to measuring and assessing a firm's performance. For example, recording short-term assets at historic cost would be desirable because the quick trading horizons of these assets would continuously appear on the income statement. For intermediate to long-horizon assets, historic cost would also be desirable

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[18] In their discussion regarding the efficiency/efficacy of using fair values in financial reporting, Kothari et al. [2010, p. 14] observe, "Use of fair values in circumstances where these are based on observable prices in liquid secondary markets is consistent with economic GAAP."

[19] On this point, Kothari et al. [2010, p. 92] observe, "In the absence of verifiable market prices, fair values depend on managerial judgments and are subject to opportunism. Accordingly, we caution against expanding fair-value measurements to balance sheet items for which liquid secondary markets do not exist."

because fair value fluctuations are not significant given that they are held for the long term.

Regarding specific remedies concerning the usage of fair values, many come to mind. Although described as decision useful and value relevant, fair values fail in both respects because structured products have long been a "powerful tool for inflating company profits by hiding losses and hence the risks of company operations" [Hildyard, 2008, p. 30]. Numerous works cite the benefits of securitizations when it comes to reducing risk and obtaining favorable financing terms [Barth and Taylor, 2010; Dechow et al., 2010]. However, caution is warranted when securitization is used to hide liabilities or bad assets. As such, all securitizations for which the issuer retains control or guarantees the transferred assets/liabilities must be accounted for "on balance sheet." Citibank lost $14 billion when it guaranteed off-balance-sheet assets during the economic crisis. At the time, it was unknown that Citi held more than $1 trillion worth of off-balance-sheet securities [Sikka, 2009]. This "on balance sheet" approach, would be consistent with the recent IASB/FASB proposal regarding lease contracts [IASB/FASB, 2010].

In various aspects, financial reporting experienced a number of shortcomings during the most recent economic crisis. From a disclosure perspective, it provided a lack of information about firm riskiness. Although extensive disclosures have been made, important assumptions were reported under "key sources of estimation uncertainty." Such disclosures were made in boilerplate responses that are inadequate for informing investment decisions [Schwarcz, 2008; Sikka, 2009]. Nevertheless, informative disclosures that are material to decision making can be adequately provided to the capital markets despite banks' annual reports that have hundreds of pages regarding the complexity of numerous structured positions held. Preparing appropriate disclosures about key judgments is a challenge. Because many assumptions and a multitude of techniques are used in arriving at numbers, material disclosures need to be concise and clear. Firms must find appropriate ways to disclose in their financial reporting such data in a succinct manner that provides a complete picture of their businesses.

Although some assert that accounting simply documents vanishing values and disappearing fortunes, numerous discussions repudiate this notion. It is true that accounting documents transactions and assesses valuations. If market values are volatile, accounting valuations will reflect that. However, this conflicts with much of the accounting research literature consistently showing that accounting has both constitutive and reflective powers—that it creates a reality as well as reflecting it [see Hopwood, 1987].[20] When assets are being marked to model, fair value accounting creates a specific reality. Thus, accounting is moving beyond its traditional role of recording economic events and transactions so that financial statements can reflect a firm's underlying economic performance. fair values are an approximate market value at best and fully irrelevant at worst and did not exist until accounting regulations allowed and required it [Woods et al., 2009]. Nevertheless, given the current trajectory of political-economic thought, historic cost is demoted to being a minor blip in the longer realm of human history [Georgiou and Jack, 2011].

The last decade has witnessed the most extensive overhaul of public accounting since the original securities Acts of 1933 and 1934 were passed. The regulations emanating from the new legislation were intended to restore public trust and to avoid sudden corporate meltdowns, primarily by enacting improvements to the audit and disclosure processes and to corporate internal controls. This has led to a major overhaul of the fundamental principles that govern accounting practices and began the transition of U.S. GAAP from a rules-based system to a principles-based one [Benston et al., 2007].

The scandals of the past decade had the expected culprits: managerial greed, sky-high expectations, "funny" accounting, lax auditing, and cheerleading capital markets. Lessons learned from scandals past remain relevant today: human nature is fallible, and greed is the cardinal sin of executives of modern corporations. Followers of the 2008 economic crisis recognized that many of factors that led to the prior accounting scandals still exist today, and the regulations implemented to fight these mistakes did not lead to desired outcomes.

Many have blamed accounting principles that are cited as enabling transaction structuring in which clever accountants followed the rule of law but violated the spirit of GAAP. Joe Berardino, Arthur Andersen's CEO, claimed that "everyone followed the rules…..".[21] Harvey Pitt, then the chairman of the SEC, politicians, and media commentators led the charge to abolish rules-based accounting because "following technical prescriptions is neither sufficient nor the objective" [SEC, 2002].

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[20] See Macintosh et al. [2000] for further elaboration on this perspective.

[21] Interview on Public Broadcasting Station (PBS), with FRONTLINE correspondent Hedrick Smith, on May 1, 2002.

Numerous materials have linked financial performance to human instinct and behavior [Schumpeter, 1942; Simon, 1960]. Behavioral phenomena such as following the herd, overconfidence, illusions of control, and irrational selectivity of information are commonly identified with the advent of behavioral finance [Fromlet, 2001]. Akerlof and Shiller [2009] argue that we will not understand economic phenomena unless we understand humans´ thoughts, ideas, and feelings. These authors contend that although humans rationally pursue economic interests, they are also irrational and misguided.

In reaction to the scandals that preceded the Great Depression beginning in 1929 in the United States, powerful players in academia, practice, and politics embraced the use of historic cost. During the development of modern accounting, academics including W.A. Paton and A.C. Littleton, practitioners such as George O. May, and the SEC influenced the use of historic cost as the acceptable accounting method for valuing resources. This paper has reviewed decisions on the use of historic cost versus fair value and questioned the preference of the FASB and IASB of fair value in their conceptual framework, thus ignoring past debates on the subject that led to the acceptance of historic cost and the use the term *representational faithfulness* rather than *reliability* in that framework now.

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PREPARING AN ACCOUNTING PROFESSIONAL: THE ARTICLES OF CLERKSHIP (1892-1897) OF GEORGE OLIVER MAY

Abstract: George O. May, one of, if not 'the' leading spokesman for the American Institute of CPAs for most of his lifetime, was the product of British education and an articled clerkship. This paper reviews the features and information about May's clerkship (indentureship) articles, including aspects of what is now called professional responsibility. Also mentioned are selected highlights and sources related to his career in public accounting, including his 'cameo' role at the l904 World Congress of Accountants in St. Louis where he participated with prominent leaders of the emerging United States CPA community, including Staub, Sterrett, Montgomery, and Sells, as well as his countrymen Pixley and Dickinson [Official Record, p. 164].

This study of George O. May's preparation provides details about a relatively unnoticed chapter in the career of an individual who was among the first group of inductees, in l950, along with William A. Paton and Robert H. Montgomery, to the Accounting Hall of Fame at The Ohio State University. Additionally, May's clerkship requirements are indicative of the role of professional responsibility in the decade before the turn of the twentieth century.

INTRODUCTION

Born May 22, 1875, at Teignmouth, Devonshire, England, George O. May rose to prominence as a partner within the firm of Price Waterhouse & Co. (he was admitted to the firm partnership on January 1, 1902, when the firm was then known as Jones, Caesar & Co. in the United States), became senior partner in 1911, and retired in l940. However, he remained active in professional activities of the American Institute of Accountants throughout the remaining 21 years of his life. May wrote over fifty manuscripts for the *Journal of Accountancy* in the days when the *Journal* was a seedbed of professional thinking and a forum for discourse on major issues facing the emerging public accounting profession, especially following the passage of the Securities Acts in the l930s. Many of his publications and excerpts of his testimonies before Congress and other regulatory groups were collected in the 1936 volume, *Twenty-five Years of Accounting Responsibility: 1911-1936*, which was a commemoration of his first 25 years as the firm's senior partner [May, 1936]. For over six decades, May was a leader in the American accounting profession—holding chairmanships of virtually every important committee of his era. He received the American Institute's Gold Medal Award for Distinguished Service to the Profession in 1944, the first year that such an award was given. His first article in the *Journal of Accountancy* appeared in July, 1906, shortly after the *Journal* was established as the profession's organ of record. His final article was 55 years later in the July, 1961, issue. That last paper was completed just a few days before his death on May 25 at the age of 86. In that writing he addressed "Generally Accepted Accounting Principles," a phrase that he is credited with having originated. In 1950, he was to become one of the inaugural inductees into the Accounting Hall of Fame that is housed at The Ohio State University. On the occasion of his 80th birthday in 1955, he participated in a lengthy interview with the editor of the *Journal of Accountancy*, and displayed an unerring sense of his view of accountancy in the coming decades [Flesher and Previts, 2009]. That interview was available only in an excerpted form in the *Journal of Accountancy* until the complete session on a reel-to-reel tape was discovered in recent years and a full transcription was provided in 2009. Just as that l955 interview provides a closure to May's public profile, the consideration of his "Articles of Clerkship" provides a type of introduction and evidence about the origins of his career.

Surprisingly, little has been written about May's early life, despite the fact that his posthumously published memoirs, edited by Paul Grady, begin with two chapters on his early life in the County of Devon [Grady, 1962]. These memoirs were written when May was in his 80s, and the memories are not always detailed. In particular, there is little mention of his clerkship period.

PURPOSE OF THE CLERKSHIP REQUIREMENT

With the formation of the chartered accountancy profession in the British Isles, and later throughout the Commonwealth, it was thought desirable to mandate an experience requirement for new entrants into the profession. This was accomplished by requiring a period (typically five years) of apprenticeship under the supervision of an experienced chartered accountant. Such a requirement was understandable given that most of the founders of the profession in England and Scotland had learned the profession through experience, as was typical of most professions of the time. A period of clerkship was designed to ensure that only "qualified" individuals joined the profession. The clerkship also socialized members and instilled in them a professional ethic. The clerkship also served to limit the number of entrants into the profession and helped insure that those entrants had been filtered by at least one experienced practitioner. Aspiring accountants had to find a member of the Institute of Chartered Accountants in England and Wales (ICAEW) who would supervise and mentor them for a five-year period. Since no member could have more than two articled clerks at one time, the clerkship requirement limited the number of entrants into the profession [Anderson, et. al., 2005, p. 25].

To further limit the number of entrants, and the class of person who might aspire to be an accountant, a premium was usually charged by the accountant to take on the apprentice. In the case of young people, such as George O. May, the premium was paid by the parent of the aspiring accountant. It has been said that the payment of a substantial premium helped "ensure recruitment of the right kind of person by denying access to those without the necessary financial support" [Anderson, et. al., 2005, p. 25]. One article noted that the requirement for a premium "brings a good type of young man, in the same way as the law of supply and demand brings an economic price for goods of other kinds [quoted in Parker, 1980]. In addition to requiring an up-front premium payment, the articles of clerkship usually allowed for no salary during at least the early years of the clerkship.

THE ARTICLES OF CLERKSHIP FOR GEORGE O. MAY

Not previously considered in such a context, the Articles that indenture May to a firm of chartered accountants, Thomas Andrew, Esq. of Exeter, in Southwest England, represent an artifact of their times as to the expectations and duties of a professional accountant. From these experiences and May's own profound intelligence come many important contributions, summarized most effectively by Stabler [1996, p. 148] who concluded his review of May by calling him "a guiding light to the profession." Before becoming indentured, May had attended a grammar school and had private tutoring from 1882 to 1889. From 1889 to 1891, he had attended Blundell's School in England, from which he graduated. His indenture agreement with Thomas Andrew is dated February 6, 1892.

The consequences of George O. May's influence are not subject to measure (although the issue was addressed over 12 pages in a 1993 history of Price Waterhouse [Allen and McDermott, 1993, pp. 45-57]. Similarly, Zeff concluded that May had a lasting effect on the development of the U. S. accounting profession [Zeff, 1987]. However, a few examples of his continuing legacy are represented in his writings of the early l940s following his retirement. Three examples of May's thinking, as quoted from his writings, that may be of interest include:

1. Accounting: "It is an art, not a science, but an art of wide and varied usefulness." quoted from "The Nature of Financial Accounting," *The Accounting Review*, July l943, p. 189.
2. "Rules of Accounting may be as powerful an influence on business and social development as rules of law. They may become in effect rules of law." quoted from 'Preface,' *Accounting as a Social Force*, 1944 p. iii.
3. "Accounting is today the basic language of the world of business finance and all who are concerned with business should understand its alphabet, its structure, its methods and its general rules (though they do not need to be expert in laying out, keeping, or auditing books of account). 'Preface,' *Accounting as a Social Force*, 1944, p. iv.

What influenced May to think as he did? Aspects of the first of the above quotes are specifically addressed in the clerkship agreement wherein accounting is identified as both art and science, and more. Other characteristics identified in May's later life are also evident in the agreement. May also may have been influenced to share his thoughts via the written word because of his proximity to his principal, Thomas Andrew, and a fellow apprentice, Charles William Westron, both of whom were prolific authors [Parker, 2012].

As William A. (Bill) Paton observed, writing in 1981, May was a clear thinker and a person of broad interests. He served in an important capacity at the National Bureau of Economic Research and was well acquainted with leading economists such as Wesley Clair Mitchell [Paton, 94]. May and Paton had, at first, been adversaries, but eventually became friends while serving on the accounting profession's first standard-setting body, the Committee on Accounting Procedure.

The focus of this paper is to consider how the growth of George O. May as a professional accountant under the direction of Thomas Andrew during the period of articling (l892-1897) may have influenced May's thinking and development in his later life. Andrew was himself a chartered accountant practicing at Number 13 Bedford Circus in the city of Exeter (a city located in the Southwestern United Kingdom about 37 miles northeast of the port city of Plymouth). He was the first chartered accountant in Exeter, having qualified in 1880—the year that the Institute of Chartered Accountants in England and Wales was founded [Parker, 2004, p. 62]. According to information provided by Stephen P. Walker, who has studied the British accounting profession in great detail, Andrew was born around 1832 in Redruth, Cornwall. An 1851 census listed Andrew as a County Court Assistant Clerk, and still living in his family home. By 1861, he had moved to Exeter, was married with children and headed a household that had two servants. His occupation was listed as County Court Registrar's Chief Clerk. The 1871 census reported that he was living at Bartholomew Street, Exeter, and held the position of High Bailiff of the County Court. He still held that position in 1881, but was also listed as being the Town Councillor, Vice Chairman of the School Board and Fellow of the Geological Society. The 1891 census, nearly concurrent with his meeting up with George O. May, lists Andrew as an Official Receiver in Bankruptcy. He died September 14, 1902. The record of wills shows that Andrew left an estate valued at over 4,000 pounds [Walker, January 11, 2013]. Robert Parker mentioned Andrew at least ten times in his 2004 article on accountants of Exeter.

Although Andrew was listed as the first chartered accountant in Exeter in 1880, he did not take the examination, apparently being grandfathered in because of his experience. Charles W. Westron (in 1895) and George O. May (in 1897) were the first Exeter accountants to qualify by examination; both were articled to Thomas Andrew and both were prizewinners. According to Parker, there were no other prizewinners from Exeter until the 1940s [Parker, 2004, p. 61]. The choice of Andrew as May's principal was essentially the only choice if the young man were not to uproot himself and move to London. At that time, almost all of England's 1,876 chartered accountants worked in London or the large industrial cities. Exeter, with a population under 50,000, had only Thomas Andrew and one of his employees who were members of the Institute of Chartered Accountants.

The evidence available in this limited study relates to the language and the particulars of the lengthy indenture agreement itself. The materials and context for this historical essay and consideration includes a copy of the original handwritten version (Exhibit 1) of the articles,[1] which is complemented by a typed translated version (Exhibit 2), and supported by a photograph of May at work in his office identified as being taken during his pre-partnership years, circa 1901. The indenture agreement is neatly written and the hand-written version is easily readable, albeit the document does lack much of the punctuation that would be used today. The excerpts appearing in this paper are presented exactly as originally written, without any new punctuation introduced.

TERMS OF THE CLERKSHIP ARRANGEMENT

Before mentioning the terms of May's indenture contract, it should be noted that the ICAEW, shortly after the organization was chartered in 1880, issued a model set of Articles of Clerkship that contain many of the provisions found in the contract between May and Andrew. Thus, most of the provisions in May's contract are not unique.

The contractual arrangement establishes a five-year period of service as clerk. There are important specifications, which warrant that George's father, George England May, will assure that the clerk will act responsibly, and will not "cancel obliterate spoil destroy waste embezzle spend or make away with any of the books papers or monies or other property of said accountant." Neither may he copy any of the books and records belonging to the accountant or clients. The parent is described as a "gentleman." The Merriam-Webster on-line dictionary defines

[1] A copy of the Articles of Clerkship were found in the National Library of the Accounting Profession at the University of Mississippi. How they got there is unknown, but the authors speculate that the document may have been in the collection donated by the former University of Florida professor, Williard E. Stone. Also in the collection was the 1901 photo of May, which is known to have belonged to Stone, thus leading to the conjecture that the two items had once been together. The original is housed in the PricewaterhouseCoopers Collection at Columbia University in New York City.

"gentleman" in the following way:

a : a man of noble or gentle birth
b : a man belonging to the landed gentry
c (1) : a man who combines gentle birth or rank with chivalrous qualities
(2) : a man whose conduct conforms to a high standard of propriety or correct behavior
d (1) : a man of independent means who does not engage in any occupation or profession for gain
(2) : a man who does not engage in a menial occupation or in manual labor for gain.

Parker, in his chapter on Devon history, noted that George O. May's father and grandfather were both grocers. His maternal grandfather was also in the grocery business, him being a butcher, as were two maternal uncles. There is nothing in this background that would seemingly play any role in his recruitment into the profession of chartered accountancy. There were servants in the family home at Somerset Place in West Teignmouth [Parker, 2012]. Thus, it can be said that George O. May came from a "good" family; his father was of sufficient wealth and respect that he could pay to have his son learn a profession. And pay he did; the indenture agreement specified that the father would initially pay 52 pounds, ten shillings to the chartered accountant to accept his son as an indentured clerk.[2] Another 26 pounds, 5 shillings was to be paid two-and-a-half years later at about the mid-point of the five-year agreement. The young May would not receive any pay during the first four years of the agreement, but would receive a salary of 26 pounds, 5 shillings during the final year of the agreement (assuming that his father had made the final payment at the mid-point of the agreement period). As mentioned in a preceding section, the requirement to work for four years without pay, and without holding another job, meant that only a certain class of men, 'gentlemen,' could accede to the level of a chartered accountant. This reflects the norm of society of that era. Changes in those norms in the last 130 years have greatly liberalized entry in developed western countries.

[2] This was apparently a typical arrangement. In 19th and early 20th century England, clerks were expected to pay a premium to join a principal. The better the firm's reputation, the higher the premium that had to be paid [Brooks, 1973, pp. 438-40]. These payment requirements began to disappear from indenture contracts following World War II. However, indentured article contracts persisted into the 1970s, but without a premium being paid.

In exchange for the payments from the May family, the accountant made certain promises in the indenture agreement, including the following:

> The said Accountant shall and will accept and take the said George Oliver May as his Clerk during the said term and shall and will throughout the said term to the best of his ability and power afford him the said George Oliver May such reasonable opportunities and work as may be required to enable him to acquire the art science and knowledge of a Professional Accountant.... And if the said George Oliver May shall have well and faithfully served his said intended Clerkship and passed the required examinations shall and will at the expiration of the said term give to him the certificate required by Bye Law 55 of the Institute of Chartered Accountants in England and Wales for the purpose of his being admitted as a Chartered Accountant.

The reference to "Bye Law 55" indicates that such an apprenticeship was indeed a prerequisite to qualifying as a chartered accountant, a requirement that has persevered to the present day in the form of an experience requirement to qualify for chartered status. The reference to "Bye Law 55 of the Institute" is a direct quote from the aforementioned model Articles of Clerkship. One requirement in the agreement suggests that awareness of duties and responsibilities to the practice were established clearly. This admonition extends further to "prejudice by the misbehavior neglect or improper conduct" of the clerk. The father was liable to indemnify Thomas Andrews for any losses for such conduct.

There are in today's contemporary settings expectations about confidentiality that all accountants are expected to adhere, and what is now called professional ethics was addressed in the indenture agreement. In such matters, the clerkship articles refer to the expectation that the clerk will maintain secrecy with respect to the accountant's business and must not divulge the names or aspects of the business affairs of clients. Further the clerk was expected to behave and respond "readily and cheerfully" to all lawful and reasonable commands regarding work efforts. These requirements to "readily and cheerfully obey" were taken directly from the Institute's model Articles. Also, there was a provision that May was to "faithfully serve the said accountant at all times during the said term. This presumably meant that May could not hold any other jobs during the term of his clerkship. This provision was included (in both

May's contract and in the Institute's model Articles) to create a specialized practitioner and to avoid association with businesses that threatened the accountant's status [Anderson, et.al., 2005, p. 25].

The reliable nature of the clerk is further noted by referring to required permission for any absences. This suggests that tardiness or other forms of truant behavior would not be tolerated. In all activities, the clerk was expected to "conduct himself with all due diligence honesty and propriety."

In the event of the death or bankruptcy of either the parent or the accountant, the terms of the contract were to be assumed by their "executors administrators and assigns." In the event of the death of the young clerk, the accountant had no liability to return any part of the parent's payment, nor did the parent have to make the second payment if his son were not still living.

CONCLUSION

This study of the preparatory years of one of the 20th century's most renowned accountants calls for reflection as to future research. May's career has many aspects and one may wish to speculate as to episodes of professional interaction between May, an immigrant to the United States, in contrast to native born CPA movement leaders such as Charles W. Haskins and Charles E. Sprague, both of whom were instrumental in the passage of early CPA legislation [Miranti, 1988, p. 362]. Explicating a variety of further literature themes, beyond the scope of this paper, also might be of interest, for example, regarding the development of contrasting approaches to professional preparation, namely clerkship versus formal education [Miranti, 1990, p. 81] or the comparative development of professional institutions [Parker,1986]. One can only speculate as to how today's entrant into the public accounting profession would view such stipulations as appeared in May's clerkship contract. How well would modern classrooms socialize aspiring accounting professionals to the level of such behavior? In a sense, a college degree has become a substitute for at least part of the certified accountant's experience requirement, which presumes that the socialization implicit in the period of indenture has been supplemented in the classroom. Perhaps May's requirements were not much different from those of modern staff accountants. Young accountants still have to adhere to ethical standards, as postulated in a professional code of ethics, as opposed to an indenture agreement, and according to some recent graduates, young accountants still have to devote nearly every working moment to the firm. The value of the indenture document is not limited to its place as a curio for historical reference but as an example of the professional's duties and responsibilities as they have been carried forward over time. In fact, May's articles of clerkship were little different from those of his peers. The ICAEW published a "suggested" articles contract, thus making the ensuing actual documents a form of a code of professional ethics. Through the "suggestions" provided in the model contract, the Institute was able to instill in most aspiring practitioners a working code of ethical behavior. In summary, this document, outlining the duties and responsibilities of a then 17-year-old accountant, therefore has value for contemporary instruction as well as for historical discussion. The clerkship agreement was essentially one milepost on the profession's march toward a professional code of ethics.

The clerkship experience was successful; May was certified as a chartered accountant in 1897 after placing first on both the intermediate and final examinations [Burns and Coffman, 1991, p. 57]. When his clerkship with Thomas Andrew ended, May joined Price Waterhouse & Co. Later in the year (July 28, 1897), he moved to America. He became an American citizen in 1909, and the rest of his history is well known. Parker concluded that May left Exeter shortly after qualifying as a chartered accountant because "Exeter was too peripheral to offer sufficient scope for" a person of his abilities and ambitions [Parker, 2004, p. 69]. For the first half of the 20th century, May was at the center of almost every aspect of the American accountancy professionalism from the first International Congress of Accountants in 1904, to regulatory and tax reform in the 1930s, and to standard setting in the 1940s. He was the vanguard of accounting professionalism in America, but that professionalism was crafted by a British clerkship of five years duration in the 1890s.

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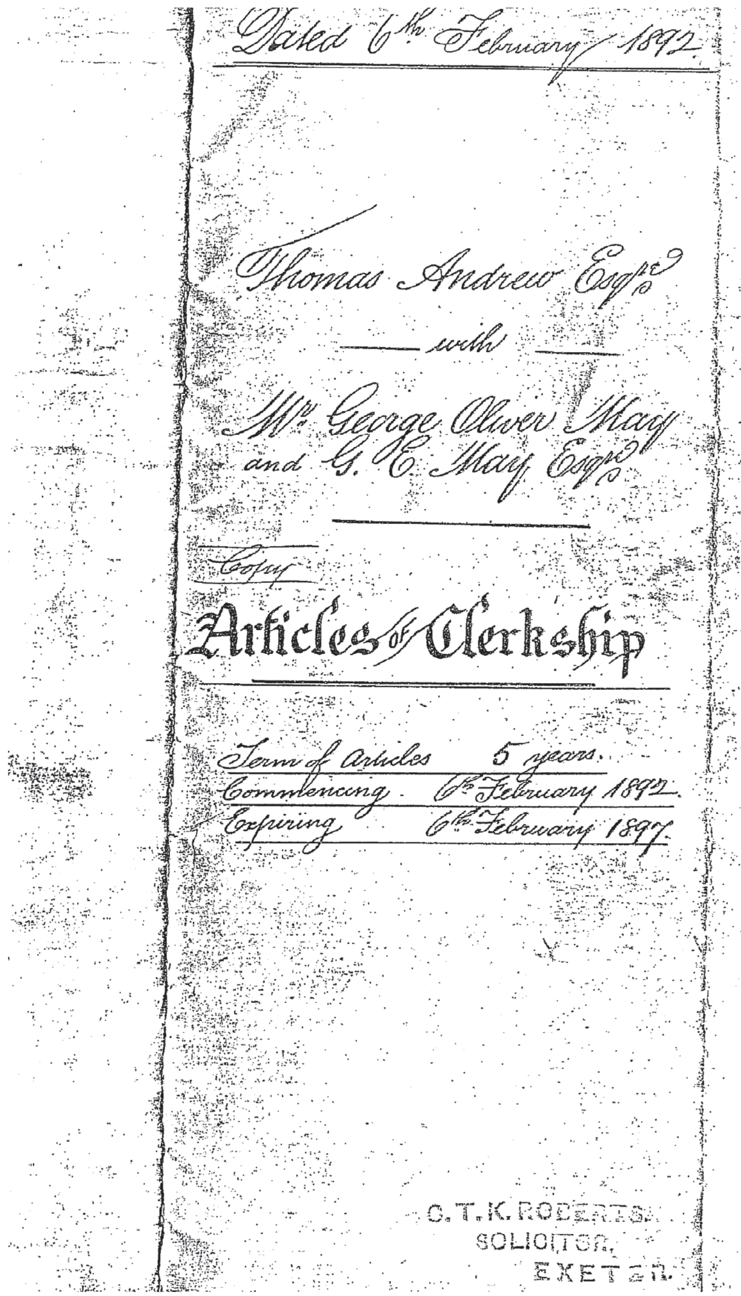
EXHIBIT 1

Copy of Original Hand Written Articles of Clerkship
(Courtesy of University of Mississippi Accounting Collection)



Dated 6th February 1892

Thomas Andrew Esqre

with

Mr George Oliver May
and G. E. May Esqre

Copy

Articles of Clerkship

Term of Articles 5 years.
Commencing 6th February 1892.
Expiring 6th February 1897.

C. T. K. ROBERTS,
SOLICITOR,
EXETER.

EXHIBIT 1 (continued)

Stamps 2/6

This Indenture made the sixth day of February One thousand eight hundred and ninety two Between George Oliver May of Somerset Place, Teignmouth in the County of Devon a Minor under the age of twenty one years of the first part George England May of the same place Gentleman and Father of the said George Oliver May (hereinafter called "the said Parent") of the second part and Thomas Andrew of Number 13 Bedford Circus in the City of Exeter Chartered Accountant (hereinafter called "the said Accountant") of the third part Witnesseth that the said George Oliver May of his own free will and with the consent of the said Parent Doth place and bind himself Clerk to the said Accountant to serve him from the day of the date hereof for and during and unto the full end and term of five years from thence next ensuing and fully to be complete and ended And the said Parent doth hereby for himself his heirs executors and administrators covenant and promise and agree to and with the said Accountant his executors administrators and assigns that the said George Oliver May will faithfully and diligently serve the said Accountant as his Clerk in the profession of a Chartered Accountant from the day of the date hereof for and during and unto the full end of the said term of five years And that he the said George Oliver May shall not at any time during the said term cancel obliterate spoil destroy waste embezzle spend or make away with any of the books papers moneys or other property of the said Accountant his executors administrators or assigns or of any partner or partners of his or of any of his clients or employers which shall be deposited in his hands or which shall come or be entrusted to his care custody or possession and shall not make copies of any books or papers belonging to or in the custody of the said Accountant or of his partner or partners and that in case the said George Oliver May shall act contrary to the last mentioned covenant or if he the said Accountant his executors administrators or assigns or any partner or partners of his or all or any of them shall sustain or suffer any loss damage or prejudice by the misbehaviour neglect or improper conduct of the said George Oliver May the said Parent his executors or administrators will indemnify the said Accountant and any partner or partners of his and all or any of them therefrom and make good and reimburse to the said Accountant and any partner or partners of his and all or any of them the amount or value thereof And further that the said George Oliver May shall and will at all times keep the secrets of the said Accountant and of any partner and partners of his and all and every of them and of his and their clients and employers and shall not divulge the names or affairs of such clients and employers and shall readily and cheerfully obey his and their lawful and reasonable commands and shall not depart or absent himself from the service or employ of the said Accountant at any time during the said term without his consent first obtained but shall at all times during the said term conduct himself with all due diligence honesty and propriety. And the said George Oliver May doth hereby for himself covenant promise and agree to and with the said Accountant his executors administrators and assigns that he the said George Oliver May shall and will faithfully serve the said Accountant at all times during the said term as a Clerk ought to do in all things whatsoever. And the said Accountant in consideration of the premises and also of the sum of Fifty two pounds ten shillings paid by the said Parent to the said Accountant upon the execution of these presents (the

EXHIBIT 1 (continued)

receipt of which sum the said Accountant hereby acknowledges
and of the further sum of Twenty six pounds five shillings
to be paid by the said Parent to the said Accountant at
the time and in the events and manner hereinafter mentioned
doth hereby covenant and agree to and with the said Parent
his executors and administrators that he the said Accountant
shall and will accept and take the said George Oliver May as
his Clerk during the said term and shall and will throughout
the said term to the best of his ability and power afford him
the said George Oliver May such reasonable opportunities and
work as may be required to enable him to acquire the art
science and knowledge of a Professional Accountant And
also from and after the expiration of the fourth year of the
said term shall pay to the said George Oliver May wages at
the rate of Ten shillings per week until the whole of the said
further premium hereinafter covenanted to be paid (provided
the same shall first have been paid to the said Accountant
in accordance with such covenant) shall have been repaid
to the said George Oliver May AND if the said George Oliver
May shall have well and faithfully served his said intended
Clerkship and passed the required examinations shall and
will at the expiration of the said term give to him the
certificate required by Bye Law 55 of the Institute of

Chartered Accountants in England and Wales for the purpose
of his being admitted as a Chartered Accountant And the
said Parent hereby further covenants with the said Accountant
that he the said Parent his executors or administrators shall
pay to the said Accountant the said further premium of
Twenty six pounds five shillings on the first day of September
One thousand eight hundred and ninety four Provided
always that at the time appointed for the payment of
the last mentioned sum the said George Oliver May and the
said Accountant shall then both be living and the said
Accountant shall then be in actual practice as an Accountant
and shall have duly observed and performed the covenants
herein contained and on his part to be observed and
performed and shall not then have become Bankrupt nor
made nor entered into any composition or liquidation or
assignment for the benefit of Creditors or scheme for the
arrangement of his affairs within the provisions of the
present or any future Bankruptcy Act for the time being
in force Provided also and it is hereby expressly
agreed and declared by and between the said Accountant
and the said Parent and George Oliver May that if the said
Accountant shall die during the said term of five years the
and as from the date of his death these presents shall cease
and determine and the Executors or administrators of the said
Accountant shall not be under any liability whatever to the
said Parent or George Oliver May in respect of the covenants
on the part of the said Accountant hereinbefore contained
In witness whereof the said parties to these presents
have hereunto set their hands and seals the day and year
first before written.

Signed Sealed and Delivered by
the said George Oliver May, and
Thomas Andrew in the presence
of

Sidney Andrew
Sol. Exeter.
Clerk to Mr C. T. K. Roberts

George O. May (L.S.)

George E. May (L.S.)

Thomas Andrew (L.S.)

Signed Sealed and Delivered
by the said George England May
in the presence of

Joseph Harris
Clerk to Mr C. T. K. Roberts
Solicitor, Exeter

EXHIBIT 2

Dated 6th February 1892
Thomas Andrew Esq.
with
Mr. George Oliver May
and G. E. May Esq.
ARTICLES OF CLERKSHIP
Term of Articles – 5 years
Commencing – 6th February 1892
Expiring 6th February 1897

This **Indenture** made the sixth day of February One thousand eight hundred and ninety two **between** George Oliver May of Somerset Place, Teignmouth in the County of Devon a minor under the age of twenty one years of the first part George England May of the same place Gentleman and Father of the said George Oliver May (hereinafter called "the said Parent") of the second part and Thomas Andrew of Number 13 Bedford Circus in the City of Exeter Chartered Accountant (hereinafter called "the said Accountant") of the third part **Witnesseth** that the said George Oliver May of his own free will and with the consent of the said Parent Doth place and bind himself Clerk to the said Accountant to serve him from the day of the date hereof for and during and unto the full end and term of five years from thence next ensuring and fully to be complete and ended **An**d the said Parent doth hereby for himself his heirs executors and administrators covenant and promise and agree to and with the said Accountant his executors administrators and assigns that the said George Oliver May will faithfully and diligently serve the said Accountant as his Clerk in the profession of a Chartered Accountant from the day of the date hereof for and during and unto the full end of the said term of five years **And** that he the said George Oliver May shall not at any time during the said term cancel obliterate spoil destroy waste embezzle spend or make away with any of the books papers moneys or other property of the said accountant his executors administrators or assigns or of any partner or partners of his or of any of his clients or employers which shall be deposited in his hands or which shall come or be entrusted to his care custody or possession and shall not make copies of any books or papers belonging to or in the custody of the said accountant or of his partner or partners and that in case the said George Oliver May shall act contrary to the last mentioned covenant or if he the said Accountant his executors administrators or assigns or any partner or partners of his or all or any of them shall sustain or suffer any loss damage or prejudice by the misbehaviour neglect or improper conduct of the said George Oliver May the said Parent his executors or administrators will indemnify the said Accountant and any partner or partners of his and all or any of them therefrom and make good and reimburse to the said Accountant and any partner or partners of his and all or any of them the amount or value thereof and further that the said George Oliver May shall and will at all times keep the secrets of the said Accountant and of any partner and partners of his and all and every of them and of his and their clients and employers and shall not divulge the names or affairs of such clients and employers and shall readily and cheerfully obey his and their lawful and reasonable commands and shall not depart or absent himself from the service or employ of the said Accountant at any time during the said term without his consent first obtained but shall at all times during the said term conduct himself with all due diligence honesty and propriety. And the said George Oliver May doth hereby for himself covenant promise and agree to and with the said Accountant his executors administrators and assigns that he the said George Oliver May shall and will faithfully serve the said Accountant at all times during the said term as a Clerk ought to do in all things whatsoever. **And** the said Accountant in consideration of the promises and also of the sum of Fifty two pounds ten shillings paid by the said Parent to the said accountant upon the execution of these presents (the receipt of which sum the said Accountant hereby acknowledges and of the further sum of Twenty six pounds five shillings to be paid by the said Parent to the said Accountant at the time and in the events and manner hereinafter mentioned doth hereby covenant and agree to and with the said Parent his executors and administrators that he the said Accountant shall and will accept and take the said George Oliver May as his Clerk during the said term and shall and will throughout the said term to the best of his ability and power afford him the said George Oliver May such reasonable opportunities and work as may be required to enable him to acquire the art science and knowledge of a Professional Accountant And also from and after the expiration of the fourth year of the said term shall pay to the said George Oliver May wages at the rate of Ten shillings per week until the whole of the said further premium hereinafter covenanted to be paid (provided the same shall first have been paid to the said Accountant in accordance with such covenant) shall have been repaid to the said

George Oliver May And if the said George Oliver May shall have well and faithfully served his said intended Clerkship and passed the required examinations shall and will at the expiration of the said term give to him the certificate required by Bye Law 55 of the Institute of Chartered Accountants in England and Wales for the purpose of his being admitted as a Chartered Accountant **And** the said Parent hereby further covenants with the said Accountant that he the said Parent his executors or administrators shall pay to the said Accountant the said further premium of Twenty six pounds five shillings on the first day of September One thousand eight hundred and ninety four **Provided always** that at the time appointed for the payment of the last mentioned sum the said George Oliver May and the said Accountant shall then both be living and the said Accountant shall then be in actual practice as an Accountant and shall have duly observed and performed the covenants herein contained and on his part to be observed and performed and shall not then have become Bankrupt nor made nor entered into any composition or liquidation or assignment for the benefit of Creditors or scheme for the arrangement of his affairs within the provisions of the present or any future Bankruptcy Act for the time being in force **Provided also** and it is hereby expressly agreed and declared by and between the said Accountant and the said Parent and George Oliver May that if the said Accountant shall die during the said term of five years then and as from the date of his death these presents shall cease and determine and the Executors or administrators of the said Accountant shall not be under any liability whatever to the said Parent or George Oliver May in respect of the covenant on the part of the said Accountant hereinbefore contained **In witness** whereof the said parties to these presents have hereunto set their hands and seals the day and year first before written.

Signed Sealed and Delivered by the said George Oliver May and Thomas Andrew in the presence of
Sidney Andrew
Solicitor, Exeter
Clerk to the Mr. C. J. K. Roberts

Signed Sealed and Delivered by the said George England May in the presence of
Joseph Harris
Clerk to the Mr. C. J. K. Roberts, Solicitor, Exeter

EXHIBIT 3

Photo of George O. May, circa 1901, prior to his admission to Partnership
(Framed photo courtesy of Williard E. Stone's materials in the University of Mississippi Accounting Collection)

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ACCOUNTING HISTORY AS A LOCAL DISCIPLINE: THE CASE OF THE ITALIAN-SPEAKING LITERATURE (1869-2008)

Abstract: The aim of the paper is to demonstrate how Italian-language accounting history was one example of a "local" accounting discipline. For this purpose, we reviewed all historical publications edited from 1869 to 2008 and conducted an in-depth analysis on the database we built. Evidence about authorships, dates of publication, publication forms, periods of study, issues and approaches, were collected. The results show many changes in the publishing patterns of accounting history research. We also explore how the schools of accounting thought, the assessment of historical research in the recruitment system, the stimuli and opportunities coming from the Italian Society of Accounting History, the role of practitioners in conducting and financing research about the origin of their profession could have influenced authorship, publication forms, and the issues and themes during the century and a half after the Unification of Italy.

INTRODUCTION

The objective of this paper is twofold. First, to promote a wider knowledge of the Italian-language Accounting History Literature (hereinafter: IAHL). Second, we intend to show how IAHL development was a complex cultural result of the particular institutions of the home country, including such issues as the language, the academic organization, the recruitment system, and the accounting practitioners' initiatives.

In recent years, accounting history research has reached a notable level of development globally. Historical work flourished under a variety of banners, with notable contributions from those labelled 'old' and 'new,' 'critical' and 'traditional,' with considerable breadth and dexterity demonstrated throughout [Fleischmann and Radcliffe, 2005, pp. 70-77]. Accounting history can provide a unifying power in two senses. On one side, by presenting accounting through the perspective of its past, accounting history can help make the members of society aware of the ways in which accounting impacts on them today and constrains their futures. On the other side, we have only a limited point of reference from which to critique contemporary practice and thought [Carnegie and Napier, 2012, pp. 328-329].

With these aims, accounting history plays an important role in the context in which it operates because of the cultural and social artefacts, research findings, and cultural symbols it produces. At the same time, accounting history is the result of a process of knowledge creation which, in its turn, is influenced by cultural, institutional, and practical issues. This web of relationships may be organized around either national or international academic communities with their unique rules, methods, perceptions of quality, and publication outlets [Lukka and Kasanen, 1996]. In many cases, groups of academics have close ties with national accounting theories, traditions, archives, language, and myths, developing an autonomous pattern of research without any connection with international context. A national approach to accounting history is really possible only under certain circumstances, such as in the Italian case, since its origins (in the second half of the 19th century) up to 2008, when some dramatic reforms occurring in the years 2009-2012 radically changed the institutional, academic and cultural context in which such an approach was followed without trouble in the past.

The 'history of accounting history' in Italy is a very controversial issue from the points of view both of the Italian and the international academic community. The former is not able to have a general and complete overview about the 'sense' and 'role' of IAHL embedded in its national context. The latter is potentially interested in Italian accounting's past and in its representations [Parker, 1993; Walker, 2005; Carmona, 2007; Carnegie and Rodrigues, 2007; Baños-Sánchez and Gutierrez-Hidalgo, 2010] but has a partial and sometimes distorted picture of it.

To fill this scientific space, in the last twenty years some publications on the issue are compared. The seminal work of Zan investigated the evolution of accounting history in Italy and focussed on the large sweep in accounting history, showing the (dis-)continuity between accounting theorists of the 19th century and the thought of the leading Italian theorists in the

20th century. This paper is founded on an in-depth analysis of the mainstream accounting history research in Italy, exploring the thought of prominent scholars such as Bariola, Besta, Della Penna, Melis, Zerbi, Giannessi, Onida [Zan 1994]. Galassi and Mattessich [2004], Viganò and Mattessich [2007], and Mattessich [2008] listed the main works of Italian literature in all fields of Accounting, comprised Accounting History, without any reference to the content of the research books and articles examined. Cinquini et al. [2008] focussed on the Italian Accounting History publications of the period 1990-2004, collecting data on authorship, publication forms, organizational contexts, periods of study, and sources. Antonelli and D'Alessio [2011] wrote a research note dealing with the methodological issues of building a data-base including a very large number of Italian historical publications in the Comparative International Accounting History perspective.

In a general sense, all the aforementioned contributions discussed the Italian approach to accounting history stressing more or less the distinctive national factors constituting such a tradition [Carnegie and Napier, 1996, p. 9].

The first distinctive national factor is the language. Parker emphasized the importance for Anglophone authors to cite general accounting histories which are published in languages other than English [Parker, 1993]. Nevertheless, Anglo-American academicians read only English-speaking literature and all IAHL is completely absent from their papers' references. According to Carmona et al. [1999], the European setting is characterized by a complex web of cultures, languages and research traditions arguably creating further difficulties for non-Anglo-Saxons seeking international visibility. Research in social sciences is, to a large extent, ingrained in cultural, institutional and linguistic contexts that are difficult to embody in a report written in a different language. They stated that language constitutes a significant barrier for social scientists to disseminate their research in leading academic periodicals and that language posits additional difficulties for non-Anglophone scholars. Many of them are not perfectly fluent in English or cannot express their ideas in English as accurately as in their mother tongue. Consequently, some of them probably refrain from submitting their work to Anglo-American or international journals [Raffournier and Schatt, 2010, pp. 162-163]. The accounting scholars tied to their national accounting bodies seem to publish more papers in their national journals than in international journals and, at the same time, using data from national institutions and tend to think that their knowledge is unique [Lukka and Kasanen, 1996].

The second distinctive national factor is the local versus global academic, and in a wider sense, the cultural context in which accounting history research is embedded. In the Italian case, the overwhelming majority of scholars and the totality of professional accountants engaged in narrating accounting's past are not accustomed to debate in an international arena with its rules, frameworks, and methodologies. The stronger argument against an opening of the IAHL to the international debate seems to be the epistemology of adopting a non-linear sense of history, largely shared by non-positivist accounting historians. Some scholars argued that it would have disruptive implications for historiographies characterized by a strong sense of finalism such the Italian tradition [Carmona and Zan, 2002, pp. 300-301; Zan, 2004].

With respect to the globalization of the historical research in Italy at the beginning of the new millennium, Carmona [2004] noted its low international profile. Within a few years, the number of articles written by Italian authors published in international journals grew rapidly [Baños-Sánchez and Gutiérrez-Hidalgo, 2010; Antonelli and D'Alessio, 2011]. Since then, some 70 historical papers had been published in international refereed journals, especially in the Accounting Historians Journal, Accounting History Review and Accounting History. As a result, Italian scholars disseminate their historical research with different publication forms. On one side, articles written by Italian historians published in international journals could be considered substantially aligned with international methodological and conceptual standards. Thus, those articles do not represent in a significant way the country-specific context they come from. On the other side, the national identity of Italian Accounting History was affirmed, enforced and disseminated by IAHL. Thus, we focus on the latter and neglect, in English-language papers, to analyse in-depth the 'local' dimension of the research tradition and the belief system of the academicians and professionals involved in historical research. We define a discipline "local" as in Lukka and Kasanen [1996, p. 757] when they applied this term to a category of research focussed on the norms and real economic environment of the home country, and we connected this national dimension mainly to Italian culture and language. Thus, IAHL could be considered an archetype of accounting history as a 'local' discipline, with its characteristics:

(a) Aims, methods, objects are strictly embedded in national culture, language, institutions.

(b) Such a literature emerges from discussion forums formed only by the accounting scholars and the professional accountants within the country.

(c) Historical knowledge is disseminated in the home country language and by nationally oriented journals and books.

The remainder of the paper is structured as follows. First, we shortly review the sociology of scientific knowledge (hereinafter: SSK) which is assumed as the conceptual framework of the paper. Second, we introduce our sources of data and findings focussing on IAHL. Lastly, we discuss these results, outline our conclusions and posit some suggestions for future research.

A SOCIOLOGY OF SCIENTIFIC KNOWLEDGE PERSPECTIVE

The SSK is concerned with what counts as scientific knowledge and how it came to count [Collins, 1983]. Science should be amenable to sociological study in fundamentally the same way as any other form of knowledge or culture [Barnes, 1974; Bloor, 1975]. The traditional vocabulary of the sociology of knowledge which asked how 'social factors' influenced scientific knowledge needed to be replaced with studies of how nature and society were 'co-produced' [Latour, 1988].

For SSK 'knowledge' refers to 'any collectively accepted system of beliefs' or to 'whatever people take to be knowledge - those beliefs which people confidently hold and live by' [Barnes and Bloor, 1982]. The securing of credibility for scientific claims was a thoroughly social and political process. Under these circumstances, the fate of a statement depends on other scholars' behaviour. Each paper will not become definitive if others do not take it up and use it as a matter of fact later on [Latour, 1987].

Scientific knowledge has increasingly come to be seen as a social product resulting from complex processes of negotiation, conflict, and competition. Development of scientific knowledge is strictly linked to changes in social interests. Scientific events, beliefs and groupings are coordinated with the nature of particular social groupings, classes and their ideologies. In seeking to understand how different subjects vary and change, therefore, it is necessary to look at the ways in which each field is organized, how its subject-area is defined, and how evaluation occurs [Whitley, 1984]. From this perspective, scientific knowledge can be viewed as developing through a network of connections between different actors, through which objects, theories, concepts, instruments etc. flow [Latour, 2005].

Bourdieu [1988] demonstrated the existence of élite academic institutions and academics in a stratified hierarchy, the heterogeneous nature of power in determining that elitism, and the importance to the élite of control of the reproduction of their social order. This they accomplish by influencing or determining academic positions and careers and by controlling writings and warning against readings which tend to ruin the dominant paradigm.

SSK program has inspired innovative work in the history of science, applying the methodology of social history to key events in the evolution of modern science so as to yield extraordinarily rich delineations of the wider social, cultural, and political context of the scientific research [Friedman, 1998]. The SSK has found its most appreciative audience in historians of science - though to think of historians of science as an 'audience' is to miss the character of the relationship [Collins, 1983]. Scientific knowledge is the property of communities, not of individuals, who find themselves reduced to being representatives of a group, members of a community [Caneva, 1998].

SSK inspired accounting research currently consists primarily of single case studies and historical studies. From a constructivist perspective, change is not understood as the result of linear, rational improvements or functional adaptations to new demands in a changing environment. Instead, accounting dynamics are viewed as the outcome of historical, contingent processes in which new accounting features appear because heterogeneous elements, such as different groups of people, different vocabularies and various technologies, are temporarily linked together at a particular moment in time [Justesen and Mouritsen, 2011]. Locke and Lowe [2008] demonstrate the variety of paradigms in many journals that are scored by accounting academician participants as being of high quality and the construction by academics of their own knowledge and reputational systems and administrative and power hierarchies. Lee [1995] stressed that international or national Accounting associations of academicians can be studied from an historical perspective showing the advancement of an academic accounting career, the power of a senior in accounting academy to influence the career progression of junior colleagues, and the rise and fall of the academic élite. Lowe [2004] noted many of the ideas of the SSK as a valuable addition to critique and understanding in the accounting literature. According to Quattrone [2004], the way in which the researcher writes depends on the institutional setting in which he/she is embedded, so if he/she writes in disciplines such as accounting he/she is then asked to be rational and organised because this is the norm and the dominant notion of accounting. External events can shift research priorities and create new research. Developments can also occur due to internal factors, whether cognitive or social in nature. The social dynamics of the global academic accounting community, as well as its evaluation and reward structures, can also exert a powerful influence on its members [Beattie, 2005]. Academic circles, schools of thought, academic journals, and accounting academic departments are characterized by specific traditions of governance. Accepted behaviours result in certain kinds of knowledge produced, certain notions of reputation, certain myths [Khalifa and Quattrone, 2008, pp. 68-72].

Following the SSK, IAHL will be explained as a cultural and social result of the country-specific accounting historian community, institutional context, accounting theory development and accounting professionals' role. An interpretative model based on the SSK paradigm and focused on national accounting history literature is useful both in a static perspective, describing the 'state of the art' at a specific time instant, illustrating 'why' and 'how' this 'state' was reached, and in a dynamic perspective, if the change in such an accounting history literature is represented as a consequence of the evolutions or turns of its academic, cultural and institutional context.

DATA COLLECTION

We built a database from accounting history books, journal articles and working papers written in Italian language. For each publication, the following data were collected: the number of authors, the academic/professional status of author(s), the date of publication, the publication form, and the period of study. Finally, the taxonomy offered by Carnegie and Napier [1996, pp. 17-29] was applied. Thus, the themes and approaches identified are: studies of surviving business records of firms, using accounting records in business history, biography, prosopography, institutional history, public sector accounting, and comparative international accounting history. For our purposes, the criteria for including publications in the database follow.

All the authors examined are or were Italian. If a contribution were made by authors working collaboratively, it was included in the sample if at least one of them were Italian. Authors affiliated with professional bodies, Italian or non-Italian universities, other educational institutions, or public administrations were all taken into consideration.

All forms of Italian-speaking publications were included in the database, i.e. books, book chapters, journal articles and papers presented to workshops and conferences.

The period of our research started in 1869, when a law imposed that all books published had to be deposited in the National Central Library of Rome and Florence. Data have been collected and processed to 2008.

We included publications with all types of accounting history topics. We do not consider as 'historical content' that written about contemporary accountants or scholars, or commemorations because neither of those are written from an historical perspective. So, papers or books that did not deal with period substantially earlier than the time of writing (in our case 40 years or more) were classified as not-historical [Napier, 2006, p. 447]. Since we cover a large span of time, we included in the database publications with a very broad notion of accounting history, without excluding those contributions which did not present a real or explicit explanation of events or phenomena. In this way, we attempt to reduce the degree of subjectivity in classifying as historical the enormous range of books, articles and papers examined [Napier, 2002, pp. 145-151].

We used individual publication as the unit of analysis. Neither simple lists nor compilations of accounting history papers were included; book reviews, editorials, obituaries, reports on accounting history events held were not considered either.

EVIDENCES EMERGING FROM THE DATABASE

In our database we collected 1100 publications written by 499 authors from 1869 to 2008. The tables that follow comprehensively reflect the results of our statistical study of the data.

Table 1 shows the distribution of publications per author (distinguishing academician and practitioner), in a descending order, e.g. in the first row, first column, "43" indicates the number of publications of the most prolific author.

The academic authorships are 871 (71%) while accounting professionals ones are 355 (29%). Two peculiarities immediately emerge from our data.

First, a relevant number of non-academicians (128) contributed to IAHL. Generally speaking, one could expect that

TABLE 1

Distribution of publications per author

Publications	Authors	Academicians	Professionals
43	1	0	1
31	1	0	1
25	1	0	1
20	1	1	0
19	1	1	0
18	2	1	1
16	2	1	1
15	1	1	0
14	1	1	0
13	3	2	1
12	3	3	0
10	4	3	1
9	1	1	0
8	6	6	0
7	5	5	0
6	13	10	3
5	12	10	2
4	26	20	6
3	28	22	6
2	71	46	25
1	316	237	79
Total	499	371	128

accounting historians are all academic, that they are affiliated to a university department, and, as a consequence, conduct research as a specialized activity which involves scientific methods, continuous interactions with the colleagues, and a final performance review. On the contrary, a significant part of the IAHL came from professional accountants, public servants, high school teachers, priests, all animated by a dilettantish interest in historical matters.

As an aside, unlike that predicted by Carnegie and Rodrigues [2007, p.445], according to whom the total number of accounting historians in every country is reasonably expected to be small and very specialized, in Italy a very large number of academicians (371) showed some interest in accounting history over time.

On a statistical basis, the concentration index provides a means of quantifying the degree of publications-related inequality. The Gini coefficient[1] is 49% and it is related to authors who are both alive and dead. The 112 most prolific authors (with three publications or more) furnished about the 62.5% of the total authorships. Of these authors, 38% have passed away (their production accounted for 355 works, or 46% of the total amount of publications). The remaining historians authored 413 publications (54%).

[1] The Gini coefficient measures the inequality among values of a frequency distribution. A ratio of zero expresses perfect equality, where all values are the same. A index of one (or 100%) expresses maximal inequality among values.

The distribution of publications per academic authors is the following: 237 academicians published one; 46, two; 22, three; 20, four; 10, five; and the remaining 36 academicians authored from 6 to 20 publications. We can argue that only a few of the most prolific authors might be considered as 'full time' historians, while the overwhelming majority of IAHL academic authors were primarily engaged in other accounting research fields.

In table 2, the distribution of publications by decades is offered.

TABLE 2

Distribution of publications per decade

1869-1879	1880-1889	1890-1899	1900-1909	1910-1919
13	57	88	22	41
1.18%	5.18%	8.00%	2.00%	3.73%
1920-1929	**1930-1939**	**1940-1949**	**1950-1959**	**1960-1969**
17	41	34	40	49
1.55%	3.73%	3.09%	3.64%	4.45%
1970-1979	**1980-1989**	**1990-1999**	**2000-2008**	**Total**
54	69	282	293	1.100
4.91%	6.27%	25.64%	26.64%	100.00%

In the period 1869-1929, a large number of articles and books were published (238, i.e., 22% of the total), a sign of the interest aroused by accounting history after Italian unity, with the contributions of the "School of Besta" and of many practitioners. The interest is continued during the period 1930-1959, with 115 publications (10.5% of the total), thanks to the contributions of the Zappa's disciples, the economic historians, such as Melis and Sapori, and the researchers of the other emerging Schools of Accounting[2]. In the period 1960-1989, growing interest in accounting history issues is demonstrated by the 172 (15.5%) publications. Finally, in the last twenty years (1990-2008), publications increased dramatically (282 publications

[2] Fabio Besta (1845-1922) was a professor of Accounting in Cà Foscari (University of Venice). His book '*La ragioneria*' ('Accounting theory') was a milestone in Italian Accounting thought at the beginning of the 20th century.

Gino Zappa (1879-1960) was a professor of Accounting in Cà Foscari and in Bocconi (The first private University of Milan). He was the founder of the Business Administration theories in Italy.

Federigo Melis (1914-1973) was one of the most prominent Economic History Scholar. His work '*Storia della ragioneria*' ('Accounting history') is the most known treatise on the matter in Italy.

Armando Sapori (1892-1976) was another of the most prominent researchers in the field of Economic History (with particular reference to Middle-Ages Merchants practices). He was also appointed Rector of the University Bocconi (1952-1967) and elected member of the Italian Senate (1948-1953).

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in the 1990s and 293 in the period 2000-2008, i.e., 52% of the total).

Table 3 is a summary of the distribution of IAHL academic/ non academic authorship over time.

TABLE 3

Distribution of academic/professional authorship per decade

	1869-1879		1880-1889		1890-1899		1900-1909		1910-1919	
	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %
Academicians	0	0.00%	5	8.77%	23	24.73%	5	22.73%	15	36.59%
Professionals	13	100.00%	52	91.23%	70	75.27%	17	77.27%	26	63.41%
Total	13	100.00%	57	100.00%	93	100.00%	22	100.00%	41	100.00%
	1920-1929		1930-1939		1940-1949		1950-1959		1960-1969	
	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %
Academicians	11	64.71%	30	73.17%	22	61.11%	30	75.00%	41	83.67%
Professionals	6	35.29%	11	26.83%	14	38.89%	10	25.00%	8	16.33%
Total	17	100.00%	41	100.00%	36	100.00%	40	100.00%	49	100.00%
	1970-1979		1980-1989		1990-1999		2000-2008		Total	
	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Publications
Academicians	39	66.10%	46	65.71%	240	79.21%	364	94.55%	871	869
Professionals	20	33.90%	24	34.29%	63	20.79%	21	5.45%	355	341
Total	59	100.00%	70	100.00%	303	100.00%	385	100.00%	1.226	1.100

In the first fifty years, the non-academics authors dominate IAHL with a very high percentage of authorships, decreasing from 100% (1869-1879) to 63% (1910-1919). Between WWI and WWII, the incidence of academic authors grew, reaching a peak of 73%. After WWII, the incidence of non-academic authorship decreased rapidly, notwithstanding the contributions of Serra (43 publications) and Antinori (31 publications). In the new millennium, the authors were mainly academicians (94.55%).

The implications of the role played by the non-academicians in the IAHL authorship are threefold. First of all, the historical matters and the rhetoric of the works coming from the non-academicians, especially in the second half of the 19th century and at the beginning of the 20th century, were obviously focussed on professional interests and visibility. Consequently, those works were based neither on a framework nor on a research method, but were mainly descriptive. Finally, the academic researchers had much work to do to remain independent from the pressures and initiatives of professional accountants involved in historical activities and organizations.

Table 4 shows the number of co-authors and the related publications.

TABLE 4

Co-authorship

Numbers of authors	Books	Journal Articles	Conference proceedings	Other	Total
1	-	-	-	-	1.012
2	8	12	41	5	66
3	1	2	8	1	12
4			5		5
5		1	3		4
6			1		1
Total	9	15	58	6	1.100

Among the 1100 publications, 1012 (92%) were prepared by a sole author and only 88 (8%) of them had two or more authors. All co-authored works are dated after 1985 and the majority of them are papers presented at the Italian Society of Accounting History (hereinafter: SISR) conference (58), followed by journal articles (15), books (nine), and chapters in books (six). Furthermore, a marked reluctance by researchers to collaborate with scholars located outside Italy is clearly demonstrated with only one Italian-speaking work co-authored by an English scholar[3].

Publication forms of IAHL are various: books, book chapters, journal articles (Table 5.1), proceedings, publications of local university press and other (Table 5.2).

Publications consisting of books number 264 (24%), book chapters amounted to 74 (i.e., 7%), and journal articles (coming from twelve reviews) reached a peak of 459, or 42% (Table 5.1).

As shown in Table 5.2, historical publications included in SISR National Conference Proceedings are 217 (20%); papers included in the proceedings of other workshops and congresses amounted to 45 (4%), publications of local university presses - 29 (2.5%), and all the other types of publications - 12 (1%).

Table 5.1 clearly shows that accounting history debate in Italy does not take place in de-specialized journals, as suggested by Carmona who shown the superiority of generalist over specialist journals in the diffusion of accounting research, with particular reference to historical issues [Carmona, 2006, pp. 258-263]. On the contrary, most of the historical articles are published in two specialized journals (25%), that is '*Rivista Italiana di Ragioneria e di Economia Aziendale*' ('Italian Journal of Accounting and Business Administration') and '*Contabilità e Cultura Aziendale*' ('Accounting and Business Culture'), both of

3 On the contrary, co-authorship involving non-Italian scholars is a wide scientific practice in historical papers published in international journal, as Fleischman and Schuele [2009] argued.

TABLE 5.1

Publication Forms (Books and articles)

Publication form	1869-1879		1880-1889		1890-1899		1900-1909		1910-1919	
	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %
Books	9	*0.82%*	19	*1.73%*	28	*2.55%*	9	*0.82%*	10	*0.91%*
Book chapters	2	*0.18%*	0	*0.00%*	1	*0.09%*	0	*0.00%*	0	*0.00%*
RIR/RIREA	0	*0.00%*	0	*0.00%*	0	*0.00%*	11	*1.00%*	23	*2.09%*
CCA+SR	0	*0.00%*	0	*0.00%*	0	*0.00%*	0	*0.00%*	0	*0.00%*
Other journals	2	*0.18%*	37	*3.36%*	59	*5.36%*	0	*0.00%*	6	*0.55%*
Total journal articles	2	*0.18%*	37	*3.36%*	59	*5.36%*	11	*1.00%*	29	*2.64%*
Total	13	1.18%	56	5.09%	88	8.00%	20	1.82%	39	3.55%

Publication form	1920-1929		1930-1939		1940-1949		1950-1959		1960-1969	
	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %
Books	6	*0.55%*	18	*1.64%*	15	*1.36%*	20	*1.82%*	18	*1.64%*
Book chapters	0	*0.00%*	0	*0.00%*	0	*0.00%*	2	*0.18%*	5	*0.45%*
RIR/RIREA	8	*0.73%*	19	*1.73%*	18	*1.64%*	11	*1.00%*	18	*1.64%*
CCA+SR	0	*0.00%*	0	*0.00%*	0	*0.00%*	0	*0.00%*	0	*0.00%*
Other journals	2	*0.18%*	2	*0.18%*	1	*0.09%*	5	*0.45%*	3	*0.27%*
Total journal articles	10	*0.91%*	21	*1.91%*	19	*1.73%*	16	*1.45%*	21	*1.91%*
Total	16	1.45%	39	3.55%	34	3.09%	38	3.45%	44	4.00%

Publication form	1970-1979		1980-1989		1990-1999		2000-2008		Total	
	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %
Books	15	*1.36%*	19	*1.73%*	43	*3.91%*	35	*3.18%*	264	*24.00%*
Book chapters	4	*0.36%*	8	*0.73%*	29	*2.64%*	23	*2.09%*	74	*6.73%*
RIR/RIREA	21	*1.91%*	16	*1.45%*	44	*4.00%*	15	*1.36%*	204	*18.55%*
CCA+SR	0	*0.00%*	0	*0.00%*	14	*1.27%*	58	*5.27%*	72	*6.55%*
Other journals	7	*0.64%*	13	*1.18%*	21	*1.91%*	25	*2.27%*	183	*16.64%*
Total journal articles	28	*2.55%*	29	*2.64%*	79	*7.18%*	98	*8.91%*	459	*41.73%*
Total	47	4.27%	56	5.09%	151	13.73%	156	14.18%	797	72.45%

RIR = Rivista Italiana di Ragioneria
RIREA = Rivista Italiana di Ragioneria e di Economia aziendale
SR = Storia della ragioneria
CCA = Contabilità e cultura aziendale

the RIREA publisher. This concentration may be explained both by the editorial policy of the scientific journals dealing with accounting or management issues and the interest of the RIREA publisher in historical matters.

Over the 140 year period of this study, the importance of books and research monographs is relatively high (about 50% of the total publications of each decade) up to 1960s. Italian scholars preferred to write monographs which allowed them to express their arguments in a clear and wide form, without page limitations. Since then, the monograph form has decreased dramatically to about 20% of total publications. Instead, journal articles gradually became the primary publication format after the 1970s.

Results shown in Table 5.2 reveal that all the other publication forms, such as workshop proceedings, publications of local university press and SISR Proceedings accounted for the most

TABLE 5.2

Publication forms (Proceedings, publications of local university press and other)

Publication form	1869-1879		1880-1889		1890-1899		1900-1909		1910-1919	
	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %
SISR Proceedings	0	*0.00%*	0	*0.00%*	0	*0.00%*	0	*0.00%*	0	*0.00%*
Other Proceedings	0	*0.00%*	0	*0.00%*	0	*0.00%*	2	*0.18%*	0	*0.00%*
Publications of local university press	0	*0.00%*	0	*0.00%*	0	*0.00%*	0	*0.00%*	0	*0.00%*
Other	0	*0.00%*	1	*0.09%*	0	*0.00%*	0	*0.00%*	2	*0.18%*
Total	0	*0.00%*	1	*0.09%*	0	*0.00%*	2	*0.18%*	2	*0.18%*

Publication form	1920-1929		1930-1939		1940-1949		1950-1959		1960-1969	
	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %
SISR Proceedings	0	*0.00%*	0	*0.00%*	0	*0.00%*	0	*0.00%*	0	*0.00%*
Other Proceedings	0	*0.00%*	0	*0.00%*	0	*0.00%*	1	*0.09%*	2	*0.18%*
Publications of local university press	0	*0.00%*	0	*0.00%*	0	*0.00%*	0	*0.00%*	1	*0.09%*
Other	1	*0.09%*	2	*0.18%*	0	*0.00%*	1	*0.09%*	2	*0.18%*
Total	1	*0.09%*	2	*0.18%*	0	*0.00%*	2	*0.18%*	5	*0.45%*

Publication form	1970-1979		1980-1989		1990-1999		2000-2008		Total	
	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %
SISR Proceedings	0	*0.00%*	0	*0.00%*	95	*8.64%*	122	*11.09%*	217	*19.73%*
Other Proceedings	2	*0.18%*	6	*0.55%*	19	*1.73%*	13	*1.18%*	45	*4.09%*
Publications of local university press	2	*0.18%*	7	*0.64%*	17	*1.55%*	2	*0.18%*	29	*2.64%*
Other	3	*0.27%*	0	*0.00%*	0	*0.00%*	0	*0.00%*	12	*1.09%*
Total	7	*0.64%*	13	*1.18%*	131	*11.91%*	137	*12.45%*	303	*27.55%*

number of historical contributions only in the last two decades especially because SISR started its scientific activities on a large scale in this period.

Table 6 provides information about the period of study. The first large period ends at the beginning of the 12th century, followed by each successive century. The last one is the twentieth since the final subject to which we assigned, in our research agenda, a historical significance is the so-called Zappa's scientific revolution in accounting thought which is dated on 1927.

Contributions in the period up to the 12th century are 54, that is, the 5% of the total. They included three works on prehistory, 22 on Egyptians, 23 contributions on Roman Empire, finally six on the eldest centuries of Middle Age.

The attention paid to the rise of capitalism in Italian commercial centers and the practice of double-entry is shown by 281 research pieces (five for the 13th century, i.e., 0.5%; 90 for the 14th century, i.e., 8%; 120 for the 15th century, i.e., 11%), among them, 68 devoted to Luca Pacioli. Regarding the modern times, we identified 71 works for the 16th century (6.5% of the total

TABLE 6

Period of study

Periods / Issues	1869-1929		1930-1959		1960-1989		1990-2008		Total	
	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %
Up to XII Century	30	*13.04%*	6	*5.22%*	11	*6.40%*	7	*1.22%*	54	*4.91%*
XIII	2	*0.87%*	0	*0.00%*	2	*1.16%*	1	*0.17%*	5	*0.45%*
XIV	21	*9.13%*	25	*21.74%*	17	*9.88%*	27	*4.70%*	90	*8.18%*
XV	36	*15.65%*	15	*13.04%*	10	*5.81%*	59	*10.26%*	120	*10.91%*
XVI	21	*9.13%*	5	*4.35%*	10	*5.81%*	35	*6.09%*	71	*6.45%*
XVII	8	*3.48%*	2	*1.74%*	4	*2.33%*	20	*3.48%*	34	*3.09%*
XVIII	18	*7.83%*	3	*2.61%*	8	*4.65%*	47	*8.17%*	76	*6.91%*
XIX	55	*23.91%*	29	*25.22%*	32	*18.60%*	141	*24.52%*	257	*23.36%*
XX	0	*0.00%*	4	*3.48%*	48	*27.91%*	136	*23.65%*	188	*17.09%*
General history	39	*16.96%*	23	*20.00%*	19	*11.05%*	46	*8.00%*	127	*11.55%*
Frameworks	0	*0.00%*	0	*0.00%*	4	*2.33%*	30	*5.22%*	34	*3.09%*
Others	0	*0.00%*	3	*2.61%*	7	*4.07%*	34	*5.91%*	44	*4.00%*
Total	230	*100.00%*	115	*100.00%*	172	*100.00%*	575	*100.00%*	1100	*100.00%*

amount), 34 for the 17th century (3%), 76 for the 18th century (7%).

The 19th century, the most important period in the evolution of Italian accounting thought, the so-called *'Ragioneria scientifica'* ('Scientific Accounting') *era*, is investigated by 257 works (23.5% of the total). Accounting practices and thought (up to Zappa) of the 20th century were analysed in 188 contributions (17% of the total). As to the 205 publications not related to a specific century (18.5% of the total), 127 (11.5%) were general histories and 34 (3%) were concerned with frameworks and methodological issues.

Another fact that stands out is the low percentages reached by the subjects that at the very beginning were properly the favourite areas of accounting history, that is, the origin and significance of double-entry bookkeeping as well as the studies on accounting at the Middle Ages and early modern times in general [Zan, 1994, pp. 299-300]. The results are not far from those exposed in Cinquini and Marelli [2007] according to whom Italian authors have fairly consistently produced papers covering the period spanning the sixteenth to the eighteenth centuries, even if the sample shows that the greatest number of studies has been concerned with the 19th (19.5%) and 20th century (40%).

The continuing interest in the earlier centuries is partly accounted for by the fact that Italy was the country in which the double-entry bookkeeping method was originally developed. It is also partly explained by the importance in Italian history, after the fall of Roman Empire, of the period starting with the 13th century, which involved the development of a thriving trade in the country, the growing political and economic power of the Church and of leading municipalities, and the Italian cultural and political Renaissance [Cinquini and Marelli, 2007, pp. 3-4].

Over the 140 year period of this study, the interest of the Italian historians to the accounting practices, thinkers, institutions, occurring in past centuries varies in a significant way.

From 1869-1929, books and articles addressed periods in the 19th (24%), the 14th (15.5%) and the pre-historical centuries (13%). Many general histories (17%) were also published. At that time, professional accountants and thinkers debated vigorously accounting system theories (mixed theory of accounts, logismography[4], statmography[5], patrimonial system). Accounting historians were also involved in the debate by representing and comparing the theories developed in the 19th century. As to the other evidences emerging from our data, they could be all related to the willingness to demonstrate how the origins of double-entry bookkeeping (in the Middle-Age or even during the Roman Empire) were Italian, according to the spirit of the Resurgence which animated the Italian society after the political unification (1861-1870). Furthermore, the Fascist Ideology influenced considerably the development of the accounting and business research during the 1920s and "some points of convergence were highlighted between the ideological issues of the fascist regime and the making of accounting discourse in Italy" [Cinquini, 2007, p. 232]. From our point of view, this influence strongly enforced the nationalist tone of the historical literature probably as a consequence of the attitude of intellectuals towards the regime.

In 1930-1959, the centuries most investigated were still the 19th (25%) and the 14th (22%). At the same time, the number of general histories (20%) grows. In practical terms, there were no significant differences with respect to the previous period.

In 1960-1989, some 28% of the works concerned the events of the first decades of the 20th century, while 19% dealt with the previous century. Note that the interest in the Middle-Age and

[4] Logismograhy was a model of double-entry bookkeeping proposed by Giuseppe Cerboni (1827-1917) who was also the Head of the State General Accounting Department (1876-1891). Logismography was adopted in the State accounting system up to the end of the 19th century.

[5] Statmography was a model of double-entry bookkeeping proposed by Emanuele Pisani (1846-1915) who was a professor of Accounting in the University of Bari. This theory had not a real impact on accounting practices.

the Renaissance (1200-1599) fell dramatically to 22%. Similarly, general histories decreased to 11%.

A new accounting paradigm (the so-called *'Economia aziendale':* literally 'Business Administration') promoted by Gino Zappa occurred in Italy in the 1920s and 1930s. Fifty years later a new generation of accounting historians was engaged in describing, underpinning and celebrating this scientific revolution. In turn, the origin of double-entry bookkeeping was not so interesting because the focus of the new paradigm moved from the accounting system to the firm as a system.

In 1990-2008, most articles and books focussed on the events and scholars of the 19th (24.5%) and 20th (23.5%) centuries followed by publications related to the 15th century (10%). Most methodological studies were published in this period. These findings are fairly consistent with the Boyns and Carmona [2002] examination of Spanish publications and, in a strong way, with Carnegie and Potter [2000) and Baños-Sánchez and Gutiérrez-Hidalgo [2010] investigations of main accounting history journals who also found that the 19th and the 20th century were the most studied period. As to the peak reached by the 15th century, many papers were published to celebrate Paciolo's life and thought in 1994.

Table 7 presents the results of classifying IAHL using the framework provided by Carnegie and Napier [1996].

TABLE 7

Issues and approaches

Issues and approaches	1869-1929		1930-1959		1960-1989		1990-2008		Total	
	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %	No.	Percentage %
Double-entry bookeeping (firms)	*30*	*2.73%*	*6*	*0.55%*	*13*	*1.18%*	*50*	*4.55%*	*101*	*9.18%*
Cost accounting	*0*	*0.00%*	*1*	*0.09%*	*2*	*0.18%*	*16*	*1.45%*	*19*	*1.73%*
Double-entry bookeeping (religious institutions)	*3*	*0.27%*	*2*	*0.18%*	*2*	*0.18%*	*4*	*0.36%*	*11*	*1.00%*
Other	*8*	*3.73%*	*25*	*3.00%*	*6*	*1.91%*	*26*	*7.27%*	*63*	*15.91%*
Studies of surviving business records of firms	41	17.23%	34	29.57%	23	13.37%	96	16.70%	194	17.64%
Accounting records for business history	0	0.00%	1	0.87%	1	0.58%	15	2.61%	17	1.55%
Accounting thought research	*84*	*35.29%*	*47*	*40.87%*	*84*	*48.84%*	*219*	*38.09%*	*434*	*39.45%*
Biographical research	*16*	*6.72%*	*12*	*10.43%*	*14*	*8.14%*	*59*	*10.26%*	*101*	*9.18%*
Biographies	100	42.01%	59	51.30%	98	56.98%	278	48.35%	535	48.63%
Prosopography	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Institutional history	13	5.46%	3	2.61%	21	12.21%	65	11.30%	0	0.00%
Charge and discharge	*30*	*2.73%*	*4*	*0.36%*	*5*	*0.45%*	*40*	*3.64%*	*79*	*7.18%*
Double-entry bookeeping (public entities)	*15*	*1.36%*	*1*	*0.09%*	*4*	*0.36%*	*15*	*1.36%*	*35*	*3.18%*
Other	*0*	*1.36%*	*0*	*0.09%*	*0*	*0.36%*	*1*	*1.45%*	*23*	*2.09%*
Public Sector Accounting	45	18.91%	5	4.35%	9	5.23%	56	9.74%	102	9.27%
Research methods in Accounting History	0	0.00%	3	2.61%	4	2.33%	27	4.70%	115	10.45%
Comparative International Accounting History	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Other	39	16.39%	10	8.70%	16	9.30%	38	6.61%	34	3.09%
Total	238	100.00%	115	100.00%	172	100.00%	575	100.00%	1.100	100.00%

The table reveals a strong concentration on biographies (535 items). The publications strictly focussed on the ideas of an accounting thinker were 434 (39.5%), while biographies in a strict sense were 101 (9%). Scholars writing in this area aimed to identify, articulate and explain the role that individuals had in developing and disseminating accounting knowledge over time. The candidates for biographical research in accounting history did not include those who were accounting practitioners, acted as firm's founders or had a central role in the professional context.

Patterns of research based on archival evidence are studies of surviving records of firms (194 publications, i.e., 17.5% of the total amount) and of public sector accounting (115 publications, that is, 10.5%). Contributions devoted to double-entry bookkeeping in firms were 101 while those focussed on double-entry bookkeeping in public administrations were 35.

Evidences of double-entry bookkeeping practices in church and monasteries were the basis of only 11 publications. Until few years ago accounting in ecclesiastical institutions had been scarcely researched. In the Middle Ages and in the Renaissance times, the Catholic Church had considerable wealth and in Italy owned and exploited vast territories, the administration of its possessions was careful and accurate, and it used rigorous and sophisticated accounting methods, but Italian Accounting Historians paid more attention to those religious men who had a central role in the evolution of Accounting Thought (among them: Paciolo, Pietra, Flori, Bonalumi) than to describe and explain accounting practices in religious institutions.

Charge and discharge accounting practices are described in 79 publications and none of them referred to a private company.

Cost and management accounting practice in a historical perspective is another issue which was quite neglected in Italian literature, since the publications on this matter numbered only 19 (i.e., 1.5% of the total amount). While international debate about the origins of cost accounting is particularly controversial and many scholars participate to it, according to various paradigms (Neoclassic, Foucaultian, Marxist, Critical), in Italy only 22 academics paid attention to such practices, most of them in recent years, focussing on surviving records of manufacturing firms, and moving from a multiple origins point of view.

Publications about local or national associations of certified accountants, accounting standard setters and auditors are 102 (9%). Part of the interest is explained by the large tradition of historical studies concerned with various aspects of professionalizing activities in accounting started in the 19th century.

Many business historians benefited from the input of accounting historians, and find the recognition of importance of evaluating the social environment in which accounting practices are shaped [Mathias, 1993, pp. 255-264; Gourvish, 1995, pp. 3-6; Carnegie and Napier, 1996, pp. 19-21]. This is the reason why a specific item of our taxonomy is devoted to 'accounting for business history'. We counted only 17 publications (1.5%) on this matter. The reasons for this scant interest are threefold. First of all, accounting records were used as an essential source of economic history research only by some prominent scholars of the past, such as Melis, Sapori, Astuti. Secondly, the great majority of contemporary economic historians are not familiar with accounting techniques (with some rare exceptions), so they used books of account as simple data sources in their investigations, not profiting for their research from all the information contained in the registers and other accounting documentation, as one of their prominent scholars clearly argued [Amatori, 2009, pp.1-3]. Thirdly, the academic barriers between accounting historians and economic historians were and are far from to dissolve. Research cooperation is very rare, each group of scholars has its own congresses, journals and academic organizations, and recruitment procedures are neatly distinct.

As to research methods in accounting history, a low number of papers on the state of the art were published (34) and most of them in the last two decades. To great extent this fact is due to the insufficient interest paid to methodological issues and to the lack of debate produced between the supporters of traditional accounting history and those in favour of the new accounting history.

Finally, prosopography and comparative international accounting history are two genres of historical issues which were completely neglected. With particular reference to the latter, two phenomena are quite evident. On the one side, IAHL published till 2008 did not show any interest in the examination of the main aspect of accounting in different countries as suggested by Carnegie and Napier [2002, pp. 694-695]. On the other side, those Italian accounting historians who were interested in international comparisons could probably disseminate their research only in international journals. Both phenomena enforce and confirm the local nature of the IAHL.

Over the past 140 years, as Table 7 shows, books and articles were distributed across all of the themes and issues studied, with nearly the same peaks.

Biographies were the most studied issue in all the four periods we distinguished. They have occupied nearly the 42% of the total amount of publications in the period 1869-1929, the 51% in the period 1930-1959, the 57% in the period 1960-1989, and the 48% in the last two decades. Studies of surviving business records of firms followed in the periods 1930-1959 (29.5%), 1960-1989 (13.5%), 1990-2008 (16.5%), while in the first period they amounted at 17%, preceded by public sector accounting (19%). Accounting historians paid scant attention to institutional history in 1869-1929 (5.5%) and in 1930-1959 periods (2.5%), while their interest to the matter has grown to 12.21% in 1960-1989 and has lightly decreased to 11.5% in 1990-2008.

DISCUSSION

The evidences emerging from our database can be discussed, focussing on peculiarities of authorship, publication forms, issues and themes through the lenses of the academic rules, the accounting theory development, and the institutional contexts.

The role of academicians in writing accounting history: Italian accounting scholars grew rapidly after the Unification of Italy and along the 20th century. They were organized around some 'masters', such as Fabio Besta, Gino Zappa, Alberto Ceccherelli, Lorenzo De Minico, and many others, and in a formalized association[6]. Among those scholars, accounting historians were a vital part, even if they founded a separated association (SISR) only in 1984. In this perspective, the large and growing number of academicians writing about accounting history issues over a century and half (Tables 1, 2, 3) could be mainly explained by the strategies played by the accounting historians community over time [Carnegie and Rodrigues, 2007; Richardson, 2008].

Academic authorships were 7% of the total in the period 1869-1929, 9.5% in the period 1930-1959, 14.5% in the period 1960-1989, and finally 69.5% in the last twenty years. If, on one hand, the historical debate involved a small number of researchers in the first three periods, especially those scholars interested in giving the Accounting discipline its historical foundation, on the other hand a question emerges. Why did so many academi-

[6] The original institution was founded in 1813 by some practitioners ('*Accademia dei logismofili*' – 'Academy of Accountants'). In 1869, its rules were modified and the professors of Accounting could be admitted as members. Since then, many academicians were appointed as president. In 1940, it was labelled '*Accademia Nazionale di Ragioneria*', i.e. 'National Academy of Accounting', and in 1980 re-labelled '*AIDEA*', that is, 'Italian Academy of Business Administration'.

cians write about accounting history issues in Italy in the last twenty years? This phenomenon is not related to the publication of a seminal or 'revolutionary' work as it happened in the Anglo Saxon context [Hopwood, 1987], since this 'historical turn' in accounting research fields took place in Italy just in the first half of the twentieth century with the contributions of Besta, Ceccherelli, Melis, Zerbi, Onida, Giannessi, but it depends on a series of circumstances.

First, there was a low 'barrier to entry' because of the lack of any academic review in accounting history publications. This does not imply that all accounting historians moved only from a dilettantish interest or that they all adopted an inadequate methodological approach. Many scholars had large scientific production on historical matters and an ever-increasing number of them published in international refereed journals in the new millennium. However, an overwhelming majority of Italian publications edited especially in the last twenty years of our survey did not offer a paragraph on frameworks and methods and their approach was mainly descriptive. In many cases, the historical issues examined in the first (and unique) paper by an author was not deepened and widened in other articles or books, even if the details, the problems, the interpretation offered in that paper were dealt with only partially.

Second, an institutional setting of the historians' community occurred only when the establishment of the SISR took place. Until then, the Italian accounting history community was not organized in an autonomous academic organization in spite of the over 400 books and articles with historical topics that had been published. Scholars lacked models of scholarship, edited collections that identified key methods, questions and results, and an institutionalization of the historians' community within the academic system.

Since its foundation, SISR promoted in a strong way the 'cultural appeal' of accounting history around the departments of the Italian universities and created some favourable conditions to the development of the study.

SISR has over 200 members (193 fellows in 1993, 240 in 2008) with the common aim of developing accounting history studies. About 50% of these members were full professors of accounting, professional accountants, 30%, followed by junior scholars, that is, associate professors, assistant professors and PhD (20%). SISR organizes a biennial national conference on accounting history issues (nine conferences from 1991 to 2007) and international workshops (five from 1994 to 2007), edits a six-monthly review (CCA) devoted to historical contents, and collects all information about its activities in the official website.

A complementary avenue for encouraging interest in accounting history and the continued proliferation of historical accounting research is through accounting history education [Bisman, 2009, pp. 137-142]. With this respect, SISR promotes residential workshops on accounting history for graduate researchers (seven organized from 1996 to 2008), and many other initiatives in historical fields. Thanks to SISR and to the attention paid to historical issues in business administration doctoral courses which provide postgraduates with training for highly specialised research at universities, accounting history had been systematically included since 1990s in the education of many future accounting academicians.

Third, and as a consequence, some 'School of Doctoral Programmes' asked their younger pupils to dedicate their first scientific paper to a historical issue.

Fourth, in 2000 the Minister of University included explicitly accounting history in the domain of the academic field labelled 'P02A - *Economia aziendale*' ('P02A - Business Administration'). Decentralized recruiting procedures[7] were based on this taxonomy and the panel of commissioners could also evaluate the quality of historical research at the same level of the other scientific issues of Business Administration. This decision depended mainly on the Italian National University Council recommendations coming from an influential member of the 'Statistical and Economic Sciences' sector, who was one of the most prominent Italian accounting historians[8]. Thus, accounting history articles and monographs could be assessed for promotion in the academic career in the same way as the publications focused on all the other accounting research fields, as Cinquini et al. [2008, pp. 34-35] also argued.

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[7] From 1999 to 2010 career progressions were made in local public competitions so that each University was entitled to manage its own competition to fill its vacancies. Each commission could declare up to three (later reduced to two and then one) qualified candidates to be eventually hired by any Italian University. Each competition was managed by a panel of five commissioners elected by all the colleagues of the same academic field.

[8] Italian National University Council is an elected body representing the Italian University System. It serves as an independent source of advice and recommendations to the Ministry of University on relevant matters to the University System. The Council comprises 58 members: among them forty-two are elected by the professors and researchers representing 14 scientific areas (Economics, Management and Accounting are all included in the "area 13", i.e., 'Statistical and Economic Sciences').

The role of professionals in writing accounting history: A history of academic thinkers, settings, beliefs, rules, could not explain the whole IAHL development over time. Undoubtedly, one important impetus for IAHL emergence and growth was the professionalization of accounting. As shown in Table 1, many non-academicians (128) contributed to historical matters and Table 3 reveals that 341 publications came from them.

Every profession should take pride in its background and development. Thus, the accountants in the early stage of profession had to justify their legitimacy, and accounting history was used as evidence [Carnegie and Napier, 1996, p.9]. In this regard, establishing the long (and progressive) history of accounting was often used by nascent professional associations as a means of justifying the status of practitioners [Previts et al., 1990, pp.139-140].

In the second half of nineteenth century, the Unification of Italy spirit led many practitioners to state the Italian 'supremacy' in accounting discipline on an historical basis in order to dignify their professional *status*. The works coming from professional accountants (135 in the period 1869-1899) could be regarded as a way of reaffirming the nation's recovery in the European context. The aim of this large group of accountants was also to give a scientific dignity and a 'pedigree' to the ascending accounting professional association, which was regulated for the first time by a law only in 1906.

In the 20th century, the large number of practitioners involved in writing about accounting history issues (the publications coming from them were 185) reveals a phenomenon which is not consistent with non-Italian practices. Professional accounting association were also strongly engaged, with their affiliated members, in producing papers and books with historical content. Most of them are stimulated to enter the historical debate to defend their professional *status* or to present their national, regional or local environment or entity to a wider and wider audience for 'marketing' purposes. Finally, the National Council of Accountants ('CNR', then 'CNDCEC') had been an influential member of the SISR since its foundation, and the former was always interested in financing and orienting cultural initiatives of the latter.

Co-authorship: The propensity for author collaboration (Table 4) was also a feature which could be explained in terms of change in academic rules and accepted behaviours in knowledge production.

There is a general acceptance in the international literature that co-authorship is linked to improved article quality. The nature of research in accounting history suggests that the rationale and/or need for co-authors may be slightly different from other areas of accounting and business research. Co-authorship in accounting history has brought together academicians of differing paradigms in order to begin to appreciate the synergies and additive value that these can bring to the study of significant events in accounting past [Fleischman and Schuele, 2009, p.291].

An institutional rule helps us to explain why in IAHL co-authorship is so recent. In the recruitment system, only individual research findings had been appreciated by the panel of commissioners for a long time. This criterion depended partially on the ambiguous text of the ministerial decrees and mainly on a bias of the large majority of Italian professors about the real contribution coming from each co-author[9]. In recent years, the laws regulating the recruitment procedures stated that if in co-authored publications the individual contributions were not clearly distinguished, the publication could not be assessed and the candidate would not benefit from it. Till to the new millennium, the academic recruitment system did not adopt a performance-based system but only a qualitative comparison. In order to list candidates in a strictly descending order, no publications could be evaluated for two or more candidates at the same time.

The great difference between the percentage of co-authored papers presented at the SISR conference (58 on a total of 217, i.e., 26.5%) and the one of co-authored articles (14 on a total amount of 459 publications, i.e., 3%) could also be explained in terms of assessment of publication forms. Since an article is generally regarded as relatively high if compared to a working paper, Italian academic authors prefer to write individually their articles and collectively their working papers. In addition, Italian Accounting journals have been refereed only since 2009. Thus, till then who wrote a working paper and presented it at a SISR conference was not interested in transforming his/her work in an article.

Finally, the absence of co-authorship between Italian and non-Italian authors reveals a scant interest in expanding collaboration, improving research, or developing cross-country comparisons, all academic behaviours suggested by Carnegie

[9] With this regard, an academic aphorism was: "A monograph is like a steak, the co-authored articles are only chips".

and Napier [2002, pp. 710-712].

As far as the international dimensions of accounting history in Italy is concerned, the academy was isolated from the Anglo-American and the French up to 1990s while some relationships with German and Austrian university systems were developed by some Italian scholars in the 1950s and 1960s. The reasons for this phenomenon could be identified partially in the absence of an Italian researcher (or school) leader in the international context and mainly in the belief system concerning the role of publications language in performance reviews. For a long time, Italian Accounting Academy contended that Italian-language monographs (and articles) played a definitive role in the process of dissemination of research and had close ties with national culture, institutions and firms. At the beginning of the 1990s a number of younger Italian accounting history pioneers started to have ties with international academic institutions and published their first works on some of the most influential journals, such as *European Accounting Review* or *Accounting, Organizations, and Society*. Since then, national academic boundaries have gradually opened, the number of articles published in international refereed journals increased, and Italian academic institutions have started to cooperate with European, American, Asian and Australian universities, scientific organizations and academies.

Publication forms: The aforementioned circumstances help us also to explain the publication forms (Tables 5.1 and 5.2). The role of journals, books, and research monographs in the dissemination of accounting history was examined by Carmona [2006]. With reference to the international historical community, he argued that performance reviews in accounting gave most weight to journal articles.

In IAHL, about one third of the publications (30.5%) consist of books and book chapters, while non-refereed journal articles amount to 41.5% and papers included in conference proceedings are 24%. The reasons for this phenomenon are threefold. First, as has been pointed out, the research monograph had been considered for a long time the most important index of research productivity in the recruitment system. Second, Italian readers preferred a wide and clear exposition of facts and details to short (and sometimes very short) articles. Third, conference proceedings papers came mainly from SISR congresses (83%), thus their recent increase was clearly connected with the scientific initiatives stimulated by the SISR itself.

A double-blind revision was gradually adopted in Italian accounting journals after 2009. As to the publishers of books, some of them started this scientific practice in 2011. Thus, none of the 1100 publications here examined were ever reviewed.

Accounting history issues and themes: The distribution of themes (Tables 6, 7) over time could be mainly explained taking into consideration the interplay between accounting theory and accounting history [Gomes, 2008].

In the international context, as a specialist research grouping, accounting history now boasts a major repertoire of published historical research in the accounting field and a healthy and well developed discourse and debate on schools of thought, methods, and informing theories [Guthrie and Parker, 2006]. Accounting historians are encouraged to engage general accounting research community by promoting historical research in the pages of the interdisciplinary contemporary accounting research journals [Gomes et al., 2011].

The emergence of accounting history as an academic discipline is traced through three strategies: making it relevant and visible/controversial, and institutionalizing it [Richardson, 2008, pp.248-249]. Thus, the periods when a discipline comes to vigorously scrutinize its own past tend to be periods when the discipline itself is undergoing significant transformations, is under pressure or approaching a state of crisis [Miller et al., 1991, p.401].

In the period 1869-1929 dominated by Fabio Besta and his School of Accounting, biographies together with accounting thought publications amounted to 42%, while accounting practices as a whole (private and public) arose at 36%, followed by institutional issues connected with accounting profession (5.5%). Besta's historical interest was motivated by the compelling necessity to legitimate and dignify a new scientific discipline mainly devoted to double-entry bookkeeping, in the context of the Italian Academy. Besta gave an historical foundation of the accounting discipline, examining the development of double and single entry, the inception of the balance sheet, the first use of reserve accounts and accruals, the origin of the expressions 'debit' and 'credit', and the beginning of budgeting [Sargiacomo et al., 2012]. As a consequence, Besta's pupils enriched the history of Italian past with several monographic contributions on Middle Ages accounting practices.

In 1930-1959, the main historical issues are biographies together with accounting thought (51.5%) and studying survival business archives (29.5%), while institutional issues fell to about 2%. The reason for this concentration could be related to the role of Italian Accounting Academe in validating research findings. In that period, historical research was under-valued as a whole and many young researchers had to adopt frameworks not conflicting with Zappa's ideas and to study only selected topics (especially accounting thought).

For the new scientific community founded by Zappa, 'general history' is not only a synopsis of a wide range of events following the chronological dimension of time, but it is also a way of demonstrating the sense of historical events and of clarifying accounting history purposes.

According to Zan [1994, pp.258-259], those historians who are closer to Zappa's approach (as for instance Onida and Giannessi, and we add Cassandro, Ceccherelli, D'Ippolito, and Verna), tend to depict the nineteenth-century accounting schools as 'precursors,' adopting a linear view of a progression in accounting thought towards its logical conclusion: Zappa. There is a partial difference between these two insofar as Giannessi criticized Onida for adopting an over-teleological 'finalist' view implying the end of history; however, Giannessi himself continued to use the language and metaphors of 'precursors.' Onida and Giannessi, as 'Zappian' scholars sensitive to the idea that accounting is a knowledge discipline with unitary foundations, seemed to lean towards the former view, and thus stressed the innovativeness of the early contributions of the 'contemporary' era.

In our opinion, the two approaches to accounting history differ for other reasons. Onida emphasized the discontinuity between Zappa's ideas and the previous accounting theories in order to negate every link to them, stressing the absolute originality of Zappa's paradigm. Giannessi, on his side, had the opposite aim, i.e., to demonstrate that the 'new' disciplines had many 'fathers': those disciplines were strongly legitimated by their continuity with the ideas and practices observed along the previous centuries, even if he was not the type of accounting historian who was desperately looking for data with which to fill in empty holes on a time line, to create an interrupted flow of events [as blamed in Vollmers, 2003].

The first and the second period shows how two academic circles, each of them based on a clear belief system, with particular reference to a concept of science, accounting theory, and accounting system, developed certain kinds of knowledge production and certain notions of academic reputation who, in turn, caused and oriented historical research in order to assess, to explain, to justify such production and reputation.

In 1960-1989, the 'conflict' between the two major 'Schools of Accounting' was completely finished and a new and younger 'generation' of researchers in many Italian universities dealt with accounting history issues. Nevertheless, a special interest in biographies and accounting thought was also adopted by these scholars. Publications dealing with biographies and accounting thought grew at 57%, led by studies of surviving business records of firms (13.5%), and public sector accounting (12%). Historical accounting research flourished thanks to works devoted to general history, the Ancient and Middle Ages, and the evolution of accounting theory.

Finally, the fourth period could be identified in the 'roaring' last two decades. In this particularly favorable context, a wider variety of arguments and topics than in the previous three phases emerged. Publications concerned with biographies and accounting thought fell to 48.5%. Studies on survival business archives amounted to 16.70%, while the proportion of all other topics rose to 36%, including methodological questions (4.5%).

Thus, the strong tradition of accounting theory was perhaps the most important factor in explaining IAHL issues and approaches. On one hand, dominant accounting theories influenced accounting history patterns of research because the findings of the latter were used in supporting the rise of the former. On the other hand, changes in accounting theories regularly caused new orientations in accounting history research with reference to the periods and the topics studied (first of all accounting thought and practices). Other circumstances, such as the access to historical accounting archives, the number of accounting chairs, the size of accounting history community, the amount of public or private funds financing historians, influenced this research trend, but not in a strong way, since in the periods when all of them were scanty (at the end of the nineteenth century, after WWI or WWII), nevertheless the development of historical research occurred in a clear way.

CONCLUSIONS

This study has investigated publishing patterns in Italian accounting history literature over the last 140 years. All these publications were analysed according to authors, date and form of publications, period studied. These publications were then arranged according to the literature classification developed by Carnegie and Napier [1996].

Our paper contributes to an international knowledge of Italian accounting history improving and widening the results of the previous literature on the matter as follows. Zan [1994] seminal work focussed on about the 10% of the whole IAHL publications while in our paper all accounting historians' contributions are reviewed. Cinquini et al. [2008] offers a statistical analysis of publications focussing on the period 1990-2004, while in our paper we referred to all IAHL publications and, additionally, we adopt the taxonomy exposed in Carnegie and Napier [1996]. Galassi and Mattessich [2004], Viganò and Mattessich [2007], and Mattessich [2008] listed a part of Italian historical literature while in our paper we investigated many profiles of such a literature. Finally, our contribution compared with Antonelli and D'Alessio [2011] consists in processing and interpreting those data we explained how to collect.

Furthermore, our paper contributes to the international debate on accounting history showing the features of the most prolific and relevant "local community" in the world, i.e., the Italian one.

Firstly, we have presented an evolutionary picture of the IAHL showing the wide range of subjects embraced by the research, practically covering all fields of accounting history, and the predominant studies focused on the 19th and 20th centuries and their accounting thinkers.

The extraordinary increase that accounting history research has experienced in Italy during the last twenty years, finally the trend towards a continuous development of historical studies, emerged in a clear way.

Secondly, we were interested in demonstrating how Italian accounting history development was the result of a process of knowledge production which can be analysed in the SSK perspective. With this respect, we considered how the accounting historians community, accounting theory, institutional rules, and professional accountants initiatives played a significant role in promoting and orienting such a literature. The institutional rules, especially the recruitment system, influenced the number of accounting academicians and the way their research publications had been assessed for over a century.

A pattern of analysis of accounting history literature embedded in a country-specific context emerges from our paper.

In the Italian case, a strong interplay between accounting theories and accounting history and the need to legitimate the dominant paradigm influencing research paths and approach had been demonstrated. Furthermore, accounting professional initiatives, their involvement in academic institutions and their historical authorships corroborating the tendencies to write general histories showing the progress of Italian accounting theories, the usefulness of professional organizations and so on, were identified as a peculiarity of the Italian context. In a general sense all these factors help us to explain how a "local" discipline could develop in a harmonic and coherent way for a long time and how only an environmental shock is potentially able to modify the *status quo*.

Several worthwhile avenues for further research arise from this study.

First, the sample selected is limited to the period 1869-2008. Opportunity exists to complete the analysis capturing the periods excluded, and especially the recent years when some crucial rules, such as the adoption of procedures in refereeing journal articles and the performance-based recruitment system, change dramatically. The strong openness to international accounting history world and the ever-increasing number of publications in most influential international journals reveal the revolutionary change which is occurring at the present days.

Secondly, research could also be undertaken to explore and elucidate various specific patterns identified in this study. For example, the conduct of cross-national (synchronic, parallel and diffusion) studies of accounting development together with studies that apply perspectives used in investigating accounting development in other contexts to the Italian process [Carnegie and Napier, 2002].

Finally, an international comparison of the Italian evidence and other countries' would be very useful to explain 'why' and 'how' accounting history had been developing in academic and non-academic contexts elsewhere as a "local" or "global" discipline.

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