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Research on the Evolution of
Accounting Thought and
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THE ACADEMY OF ACCOUNTING HISTORIANS

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Fall 1985

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THE ACCOUNTING HISTORIANS JOURNAL

Semiannual Publication of The Academy of Accounting Historians

Volume 12, Number 2 **Fall, 1985**

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KENNETH S. MOST, Manuscripts Editor

Guide for Submitting Manuscripts

Manuscripts must be in English and of acceptable style and organization for clarity of presentation. Submit three copies typewritten, double-spaced (except for indented quotations) on one side of 8½ x 11 inch (approx. 28.5 cm x 28.0 cm) white paper; paragraphs should be indented. An **abstract** of not more than 100 words should accompany the manuscript on a separate page. The manuscript should not exceed 7,000 words and margins should be wide enough to facilitate editing and duplication. All pages, including footnote and references pages, should be serially numbered.

The cover sheet should state the title of paper, name(s) of author(s), affiliation, and the appropriate address for further correspondence. The title, but not the name(s) of the author(s), should appear on the abstract page and on the first page of the body of the manuscript. Acknowledgments should appear at the bottom of the first page of the body of the manuscript and be excluded from the consecutively numbered footnotes.

Manuscripts currently under review by other publications should not be submitted.

Major headings within the manuscript should be centered, underscored, and unnumbered with the first letter of major words capitalized. Subheadings should be on a separate line beginning flush with the left margin, and underscored with the first letter of major words capitalized. Third-level headings should lead into the paragraph, be underscored, and followed by a period; text should immediately follow on the same line.

Tables, figures, and exhibits should be numbered (arabic), titled, and, when appropriate, referenced. Limited use of original documents, etc. can be accommodated in *The Journal* for authors providing glossy black and white prints. Important textual materials may be presented in both the original language and the English translation.

New Footnote Policy

Footnotes should not be used for literature references. The work cited should be referenced using the author's name and year of publication in the body of the text, inside square brackets, e.g. [Garbutt, Spring 1984, p. 84]; [Garner, 1954]. If the author's name is mentioned in the text, it need not be repeated in the reference, e.g. "Previts [Fall 1984] asserts. . ." If a reference has more than three authors, only the first name and *et al* should be used in the text citation. References to statutes, legal treatises or court cases should follow the accepted form of legal citation.

Textual footnotes may be used sparingly to expand and comment upon the text itself. These should be numbered consecutively throughout the manuscript, using superscript arabic numerals.

List of references. This should appear at the end of the manuscript and contain full reference to all sources actually cited and arranged in alphabetical order according to the surname of the first author. Information about books and journals should include the following: Books—name of author, title underscored, place of publication, name of publisher, date of publication; Journals—name of author, article title within quotation marks, journal title underscored; date of issue in parentheses, page numbers. Multiple works by an author should be listed in chronological order of publication, and when multiple works of an author appear in a single year, the suffix a, b, etc. should be used after the year. Illustrations of footnote and references entries are as follows:

FOOTNOTES

[1]Chatfield, p. 52.
[2]Previts (1982a), p. 8.
[3]Previts (1982b), pp. 19-20.

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REFERENCES

Chatfield, Michael. *A History of Accounting Thought.* Hinsdale, Ill.: The Dryden Press, 1974.
Previts, Gary John. "Hazy History: Fact and Folklore in Accounting." *The Accounting Historians Journal,* Vol. 9, No. 2 (Fall 1982a), pp. 7-9.
————————. "Old Wine and . . . the New Harvard Bottle." *The Accounting Historians Journal,* Vol. 9, No. 2 (Fall 1982b), pp. 19-25.

As a helpful guide to questions of style not covered above, refer to *A Manual for Writers of Term Papers, Theses, and Dissertations* by Kate L. Turabian, published in paperback by The University of Chicago Press.

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SAVANNAH, GEORGIA

AMERICA'S EARLIEST RECORDED TEXT IN ACCOUNTING: SARJEANT'S 1789 BOOK

Abstract: In 1789, seven years before the text developed by "pioneer American [accounting] author" William Mitchell appeared, Thomas Sarjeant of Philadelphia published *An Introduction to the Counting House.* It was a concise and able expression of a long mercantile bookkeeping tradition destined to result in later American texts. A mathematics teacher in England and a Philadelphia "academy," Sarjeant also contributed works on commercial arithmetic.

There is significant bibliographical evidence that *An Introduction to the Counting House,* which is readily available within a remarkable historical microform series, was the first text on accounting to be produced by an American writer.

An important advance in the evolution of accounting education in the United States was the advent of accounting books published originally in this country by resident authors. A text by William Mitchell appearing in 1796 is widely known; it has also been noted that a Philadelphia mathematics professor, Benjamin Workman, had written a book bearing an accounting title seven years earlier. Workman's text did not, however, cover accounting subjects. Authoritative research on early printing reveals no earlier American texts on accounting, nor, except for a 1788 collection of writings by English author Charles Hutton, even local editions of (or compilations from) overseas works addressed more than incidentally to the field.

Yet a book by another Philadelphia mathematics teacher that also appeared in 1789 was primarily a text on mercantile bookkeeping. The purpose of this paper is to call attention to *An Introduction to the Counting House* as the earliest recorded American accounting text, issued precisely at the beginning of the constitutional republic, and to Thomas Sarjeant as thus apparently the charter American author. Sarjeant, a transplanted Englishman who taught commercial subjects at an American academy, gave an exposition of mercantile accounting. Claiming no originality for his concise treatment of single- and double-entry procedures and related business records, he in effect transmitted from the British Isles a long accounting tradition that was destined to thrive in his adopted land.

An Introduction to the Counting House (henceforth *Counting House*) was one of three works by Sarjeant having commercial themes, excluding his adaptations of a prominent shorthand text. It was conceived as a sequel to an applied arithmetic text published only a few months earlier, and was followed a few years later by the first recorded general study of "federal arithmetic," covering in particular the evolving United States monetary system of dollars and cents. Tentative recognition of Sarjeant as America's first author in two major areas is based upon Shipton and Mooney's authoritative *National Index of American Imprints Through 1800* and the comprehensive Readex microform series to which it is keyed. There is intriguing evidence, however, that lawyer David Franks of New York, a native Irishman whose only known publications were the first two New York City directories, nearly became America's first accounting writer.

Previous Candidates for the "Earliest" Text, and Identification of a New One from the First Year of the Republic

From somewhat different standpoints, the pertinent works of the three writers cited in the opening paragraph, and a book published more than fifty years earlier, have each previously been cited as perhaps the first American accounting text. Three of them are disqualified by intrinsic features of content or authorship, however, while the traditional candidate for the distinction is dislodged only by finding in *Counting House* a genuine accounting book published earlier by a resident author.

Four Prior Candidates for Recognition as the First American Text

The earliest book listed in Bentley's bibliography of American accounting literature is *A New and Complete System of Book-keeping by an Improved Method of Double Entry,* issued in 1796 by "pioneer American author" William Mitchell.[1] When reprinted in a 1978 series, it was advertised as "the first accounting book by an American author to be published in the United States."

That characterization has in recent years been challenged on behalf of three other works. A year before the Mitchell reprint appeared, a rare books specialist from the Library of Congress asserted that a book published in 1788 in Philadelphia should be recognized ahead of Mitchell's as an "American" text, provided that the unidentified editor were resident printer Joseph James, a reasonable conjecture. *A Course of Bookkeeping According to the Method of Single Entry* was taken from the writings of Charles Hutton, who properly was listed as the author notwithstanding a few editorial changes. The book was reissued through 1815 by several printers in New Jersey (1790) and Philadelphia.

McMickle in 1984 rightly challenged the credentials of this collection as an American text. Even if the printer served also as editor, the author Hutton was English. Furthermore, no effort had been made (beyond the substitution in later editions of Philadelphia for London as the setting for sample account material) to adapt his coverage to the local environment.[2]

McMickle proposed his own candidate, pushing the calendar back another half century to *1737*. The fifth edition of *The Secretary's Guide, or Young Man's Companion,* published in Philadelphia in that year, and reprinted in 1738, included within its 248 pages a 14-page bookkeeping primer. This series of general-purpose instructional manuals had been introduced in 1698 by William Bradford, the first printer both in Philadelphia and New York, also of the first newspaper published in the latter city. Bradford's son Andrew had published, and presumably compiled, the fifth and final edition, the only one containing accounting material.

Since accounting was almost an incidental topic of coverage, one is tempted to dismiss *The Secretary's Guide* as merely a contemporary encyclopedia that included a section on bookkeeping. With some historical warrant, however, McMickle challenged Bentley's premise that a work in accounting must deal mainly with the field. In light of the dependence of eighteenth-century Americans on such materials, it certainly might be reasonable to call an influential general manual of the day a "text" on various subjects, each forming part of the whole.

There is reason indeed to impute substantial influence to the bookkeeping instruction contained in Andrew Bradford's *Guide,* for it would be printed in virtually identical form numerous times in colonial and early republican America. The only problem is that, as documented by McMickle, the material had not originated with the editor or any other American. Instead, it had been appropriated without attribution, at one remove, from the 1727 first edition of *The Instructor, or Young Man's Best Companion,* by "George Fisher, Accomptant," a popular work for many years in English, Irish, and (beginning in 1748) American editions.[3]

Hence, even on a permissive definition of accounting texts, the fifth edition of *The Secretary's Guide* was no more fundamentally an "American" work in the field than was Hutton's later *Course in Bookkeeping.* So far as they dealt with accounting, both works had foreign authors. The 1737 publication may well have been the first instructional material on bookkeeping published in America. Similarly, the 1788 book may have been the first local imprint dealing either wholly or mainly with such subject-matter.

The fourth work cited as perhaps the first American accounting book cannot be challenged in terms of authorship. As observed by Previts and Merino in their 1979 history of American accounting, among the books published in Philadelphia in 1789 was *The American Accountant* by Benjamin Workman. The author, as the head of the "mathematical school" at the University of Pennsylvania, was clearly an American resident. Examination of his book in both its first and second (1793) editions reveals, however, no coverage of accounting in a present-day sense. Instead, it covered basic arithmetic, fractions, and (particularly) "mercantile arithmetic," a field associated closely with "merchants' accounts."[4]

Though not by Benjamin Workman, the first recorded American accounting text *was* published in Philadelphia in 1789.

Identifying an Accounting Text from the First Year of the Republic

An Introduction to the Counting House, Thomas Sarjeant's title, also suggests accounting subject-matter, in this case accurately. The book escaped Bentley and Leonard's painstaking research because they had deliberately confined their attention to *copyrighted* material, thus excluding pre-1790 works.[5] It had been listed in Charles Evan's mammoth *American Bibliography,* twelve volumes of which had been issued as of the compiler's death in 1935. That work was arranged basically by author name rather than title or subject-matter.[6]

Sarjeant's 1789 work is absent from the two leading collections of early business literature, the Goldsmith's Library of Economic Literature (University of London) and the Kress Library of Business and Economics (Harvard).[7] *Counting House* is also missing from the famous Herwood Library of Accountancy (inclusive of 1,233 pre-1900 titles, when cataloged in 1938, plus 67 histories or bibliographies), now housed in Baltimore.[8] Moreover, the Library Company of Philadelphia, a major rare books center founded by Franklin and others in 1731 as the nation's first subscription library, never owned Sarjeant's book.[9] Finally, it is not listed among the holdings of the Historical Society of Pennsylvania.[10]

A computer search and other inquiry have found only three paper copies of the book in U. S. libraries. The American Antiquarian Society (Worcester, Mass.), a noted repository of textbook material, provided the copy from which the only known microform editions were produced. The University of South Carolina owns a copy, in very delicate condition, that was evidently acquired some time after 1849. Finally, the Library of Congress holds a copy of *Counting House* in its Rare Book and Special Collections Division, no. QA101, S4 1789.[11]

The Sarjeant text is available thoughout the nation, however, as part of a massive project conducted by the Antiquarian Society and Readex Microprint Corporation, 1954-69. In 1969 it was issued in opaque *microprint* (or *-card*) form as item 22127 of the original Readex Early American Imprints series, based upon substantial refinement and expansion of the Evans bibliographical listings.[a] The present research was conducted in large part through the use of that collection.

The 1789 text came to light through correspondence with the archivist of an Episcopal school founded in Philadelphia two centuries ago. Sarjeant was identified as a charter faculty member and three of his books were mentioned, including *Counting House.* Follow-up inquiry at the aforementioned Library Company revealed that those works existed in Readex editions.[12]

There were a variety of sources or modes of accounting instruction, both formal and informal, in eighteenth-century America. Although text material was by no means always available, a number of British texts were rather popular, including in particular the writings of the Scotsman John Mair. A general reference manual

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[a]Series editor Clifford K. Shipton and his associates sought to reproduce in microprint as nearly as possible "the full text of every edition of every book, pamphlet, and broadside printed between 1639 and 1800 in the area that is now the United States." A total of 49,197 items were indexed and, except for the relatively small number that were not available for reproduction or were judged to be inauthentic, reprinted. Readex recently reissued the series in a microfiche edition. Scarry; and Shipton and Mooney, pp. v-vii, quoting p. vi.

In microprint only, Readex has issued a still larger second series covering the years 1801-1819. Scarry; and Shipton, Mooney, and Hench.

published in many American editions that contained only brief coverage of bookkeeping deserves notice in another regard.

Instructional sources or modes

Much accounting education in Sarjeant's day occurred on-the-job, in the mercantile "countinghouse," quarters maintained by nonseafaring merchants for the keeping of accounts and the conduct of other clerical functions.[13] From early colonial times there had been a strong tradition of self-instruction through independent study. Available accounting texts would sometimes have been used by "self-instructors," while a number of more general manuals or primers designed especially for them contained rudiments of bookkeeping and commercial arithmetic.[14]

However, formal instruction in merchants' accounts was available almost from the start of the 1700s. Many private teachers in the principal cities offered short-term day or evening classes.[15] Some form of single-entry accounting may have been more common until nearly the end of the colonial era, but most teachers favored the "Italian" double-entry method, probably reflecting textbook influences. Schoolmasters may frequently have used handwritten manuscripts in place of texts, and actual account books were occasionally employed in instruction.[16]

Advent of "English schools" and diverse "academies" provided a base for instruction in bookkeeping and other practical or vocational subjects, studies sometimes found even in the classical "Latin grammar schools" of the day.[17] The eighteenth-century academy took numerous forms:

> Perhaps the most that can be said of any given academy is that it offered what its master was prepared to teach, or what its students were prepared to learn, or what its sponsors were prepared to support, or some combination or compromise among the three.[18]

Franklin's Academy of Philadelphia, opened in 1751, combined "Latin" (classical) and "English" (modern, more practical) schooling. "Merchants Accounts," taught along with "'all other branches of the mathematics'" by veteran private teacher Theophilus Grew, was an original field of study in that antecedent of the University of Pennsylvania,[19] where the formation of the Wharton School 130 years later was especially fitting.

Finally, bookkeeping was sometimes taught by private tutors, a teaching group drawn in part from the ranks of indentured (and also convict) servants. Tutors resident in one household would in some instances be permitted to teach students from other homes as well.[20]

Textbooks by British authors became more widely available for instruction as the century progressed.

Representative textbook authors

Probably the most influential author throughout Britain, Ireland, and America was Scottish schoolmaster John Mair (1702?-1769). Between 1736 and 1807 his successive works *Book-keeping Methodiz'd* and *Book-keeping Moderniz'd* would appear in Edinburgh (principally), Dublin, and Norway in 1775, in twenty-nine printings, including eighteen numbered editions. Continuing an area of coverage begun in 1749, Mair devoted a chapter of *Moderniz'd,* a posthumous work of 620 pages, to "[t]he produce and commerce of the tobacco-colonies" (Virginia and Maryland) and "the accounts usually kept by the [local] merchants."[21] Contemporary sales listings and library catalogs imply that "Mair's bookkeeping" was easily the most popular accounting text in the major American cities during the latter half of the eighteenth century.[22]

English authors whose accounting texts or related writings were known in America on the eve of independence and the early years thereafter included Edward Hatton, whose first edition had appeared in 1695; William Webster (1719); Thomas Dilworth (c. 1750); Malachi Postlethwayt (1751); and William Weston (1754), who used the subtitle "British and American Compting-house." William Gordon (1765) and Robert Hamilton (1779), both Scottish authors, and Daniel Dowling (1770), an Irishman noted for his "system" of double-entry bookkeeping, were equally popular writers in the early years of the republic.[23]

The Young Book-keeper's Assistant by Dilworth appeared in a posthumous American edition of 1794, scarcely changed from the 1768 edition addressed to schools in the English "Plantations and Colonies abroad." No less than Mair, a prominent authority on Latin grammar and literature and author of a notable arithmetic text, Dilworth was a versatile writer. He wrote on astronomy, English grammar, and both basic and applied arithmetic, and produced a spelling manual widely used in eighteenth-century America. His arithmetic text *The Schoolmasters Assistant* had appeared in more than a hundred editions or printings worldwide, by 1800, including more than two dozen American imprints.[24]

Possibly the leading general reference manual for self-instructors was *The Instructor; or Young Man's Best Companion,* by George Fisher, previously cited as the fundamental source of Andrew Bradford's 1737 section on accounting. Originating in London in 1727, and published in an early edition in Dublin nine years later, this work was issued in its ninth edition in 1748, by Benjamin Franklin's printing firm, as *The American Instructor.* Both the manual and a prominent arithmetic text bearing Fisher's name were once regarded as pseudonymous works by Mrs. Ann Fisher Slack, author of *The Pleasing Instructor,* a famous book of fables, morality tales, etc. This identification stands refuted, however, by her life-span (1719-78).[25]

Twelve pages of *The American Instructor,* a 378-page guidebook for youth aspiring to business careers, covered double-entry book-keeping, the mastery of which would supposedly qualify them for business pursuits "in the highest Degree." Fisher's book was immensely popular in America for half a century or more after the appearance of the edition cited. Sixteen other American imprints through 1800 have been listed, although seven of them are known from advertising alone, identical in all but title page to other editions, or thought to be fictitious.[26]

In addition to works by the other authors mentioned, Philadelphia and Boston booksellers of the early 1790s advertised the new book *Counting House* by Thomas Sarjeant, a writer with a background of "academy" teaching.

Sarjeant's Teaching Background

Not much is known about Sarjeant beyond his publications. Before coming to America he had taught the "Mathematical Branches of Education" in the Royal Grammar School of Kingston upon Thames, a "Seminary" for "Young Noblemen and Gentlemen."[27] By 1785 he had settled in the new world.

In that year an academy structured similarly to the nonchurch-going Franklin's was opened in Philadelphia under religious auspices. The Episcopal Academy's constitution provided for "classical," "English," and "mathematical" schools, the latter two having a practical orientation. Thomas Sarjeant was the first mathematics teacher, and his subject areas included mercantile accounts. He left the academy in 1787, a year during which the lexicographer Noah Webster (1758-1843) taught briefly in the mathematical school. Although it would survive in its original form only five years, the Episcopal Academy (now located in Merion, Pa.) is still in operation two centuries later.[28]

After leaving the academy, Sarjeant published several books and related materials, as discussed below. All were issued in Philadelphia, and, except for a 1799 reprint of an earlier work, before 1794. Prefaces, giving no clue as to the author's profession, consistently bore a Philadelphia address. Yet inspection of annual Philadelphia directories for the entire period 1791-1800 (except for 1792, when none was published) showed no reference to Thomas Sarjeant, under any potential spelling. Nor was he listed in either of the two directories dated 1785, the only prior volumes.[29]

Further reason to doubt that Sarjeant was a Philadelphia resident in the years directly following publication of *Counting House* is found in the first national census, compiled in 1790. Among heads of households, the only Pennsylvanian listed with a similar name was Thomas Sarjeant of Washington County, located in the southwest corner of the state, near Pittsburgh. Only the household of John and Obadiah Sergeant was listed from nearby Delaware. Further, an outstanding geneaological source from New Jersey, fully indexed, appears to provide no relevant citations.[30]

Fortunately, the author's principal writings are available. A book published in the fall of 1788 laid the foundations for his accounting text.

Sarjeant's *Elementary Principles of Arithmetic*

In the fall of 1788, Philadelphia printers Dobson and Lang issued Sarjeant's book *The Elementary Principles of Arithmetic, with their Application to the Trade and Commerce of the United States of America, in Eight Sections.* It was intended for use in "Schools and Private Education," that is both classroom instruction and independent study, since it could "be read through in the Winter Evenings of one Season."[31]

In ninety pages the eight chapters covered integral arithmetic; compound arithmetic, with special reference to money, weights, and measures; varied applications of basic arithmetic; proportion, based on the famous "Rule of Three" and reiterations thereof; mercantile arithmetic; nondecimal, or "vulgar," fractions; decimal fractions; and selected exercises. Five pages of solutions and notes completed the book.[32]

The mercantile arithmetic chapter covered exchange of money; weights, and measures; simple and compound interest; determination of a time for joint payment of sums due at different dates; rebate or discount for early payment; gross gain or loss on individual sales; and "[f]ellowship." The last item, representing "a rule which proportions any Sum or Number according to two or more Numbers given, so as to shew the Share, Gain, or Loss, & c., on each," was evidently an arithmetical foundation for partnership accounting.[33] Sarjeant's coverage of compound arithmetic included both reduction of one unit in a monetary system to another, such as translation of pounds into shillings, and the basic mathematics of weights and measures.[34] Several of these topics would be discussed in detail in a later work, following important official developments regarding American money, weights, and measures.

Characteristically modest in disclaiming originality, Sarjeant described himself as "Editor" of a text substantially indebted for its examples on mercantile topics, among others, to the work of "Rev. Cha. Marshall." They had perhaps been associated at the Royal Grammar School when the book's "principal parts" had been prepared for classroom use.[35] The author did assert that, relative to other texts in the field, the book was (a) concise, and thus suited to "Classical Schools" allotting little time for the subject; (b) methodical; (c) "Portable and Convenient"; (d) usefully innovative in techniques; and (e) highly adapted to "Female Education." Cited in the last regard were relevance to homemaking (the "conducting of a family"), and presentation of a general rule for "compound multiplication" equally applicable to money, weights, measures, etc.[36]

The conciseness of Elementary Principles is pointed up by comparing the book with the first edition of another arithmetic text published the same year in Massachusetts. Nicholas Pike's *A New and Complete System of Arithmetic* did indeed include topics from physics; geometry, trigonometry, and other areas not covered by Sarjeant. Its length of 512 pages, more than five times that of the other book, was based particularly, however, upon relative detail in exposition and amount of exhibit and practice material.[37]

"An Introduction to the Counting House," 1789

Counting House, also printed by Dobson and Lang, was intended as a supplement to *Elementary Principles.* It was originally "[s]old by [publisher] T. Dobson and W. Poynteli in Second Street; and W. Pritchard, T. Seddon, and Rice & Co. in Market Street."[38] Separate units covered selected mercantile records and documents, and single- and double-entry accounting. In just fifty-two pages, four of them representing front matter, Sarjeant produced a very competent exposition of well-established forms and procedures, judiciously combining explanatory and exhibit material. In both length and format the work was far different from the bookkeeping text produced seven years later by William Mitchell, comprising 454 pages almost entirely limited to sample books.[39] *Counting House* was promptly available for sale in New England as well as Philadelphia.

Directed toward "Schools and Private Schools and Private Education," *An Introduction to the Counting House* was subtitled:

> Or, a Short Speciman of Mercantile Precedents, Adapted to the Present Situation of the Trade and Commerce of the United States of America.[40]

At a time of transition to a national system of dollars and cents, the 1789 text was presented in terms of British monetary denominations—pounds, shillings, and pence.

The book had been prepared as a "Supplement" to the arithmetic text in response to the urgings of "some Gentlemen" whose opinions the author held in "the greatest deference."[41] Together providing "a complete Introductory Course of Mercantile Instruction," the two works could be purchased separately for one half dollar or (in "fine paper") five shillings under a single cover.[42]

Counting House represented "an Abstract of the Course of Mercantile Instruction attempted in the Academy of the Protestant Episcopal Church" of Philadelphia. Sarjeant's "principal [o]bject" was

> to furnish a Compendium for American Youth, in which the Fundamental Principles of a Mercantile Education are communicated in a more Concise and Intelligible Manner, than in any other Introductory Treatise in the English Language.[43]

Again making no claim to originality, "Editor" Sarjeant characterized the text as largely a classroom adaptation of selections from unidentified publications. He noted specific limitations based upon existing printing technology, yielding "the utter impossibility of Exhibiting many of the Mercantile Forms by Letter Press," and diverse countinghouse practice.[44]

"Section the First"—Selected Mercantile Records

The untitled first section (pp. 5-18) presents definitions and numerous exhibits of mercantile documents of several kinds. To avoid an unduly long and expensive book, ill-suited to a "first Course," the author deliberately excluded items such as invoices, bills of exchange, cash books, and nonbusiness "Housekeeper's" books.[45]

In the first eleven pages, Sarjeant defined and illustrated five forms:

a. "Bills of Parcels"—Detailed bills of sale, specifying "Quality, Quantity, &c."
b. "Bills of Book Debts"—Customer accounts receivable ledgers
c. "Receipts" from debtors, illustrating both personal and partnership cases
d. "Promissory Notes"
e. "Bills of Exchange"—Orders "for Money to be received in *one* place, for the value paid in *another.*"[46]

The first section concluded with presentation of "Applications," or problem sets, for documents of each kind.

"Section the Second: Book-keeping by Single Entry"

Sarjeant defined bookkeeping as "an Art, which teaches the Method of recording, and disposing the Accounts of Transactions in a course of Trade."[47] He considered instruction in the single-entry procedures associated primarily with retail trades essential. They were "entirely sufficient" in many fields; the alternative "Italian method" was "wholly inapplicable" to still others (unspecified); and the simpler approach gave useful and necessary background for the more complex one,[48] no doubt due in large part to its limitations.

Two single-entry books were discussed. Transactions were originally entered in a "Day" book, from which transfers were made weekly, or as often as convenient, to a "Ledger." The procedures illustrated were intended to account for (i) *cash* lent or borrowed, (ii) *goods* sold or bought on credit, and for both cases (iii) *debts,* of either party discharged.[49] The partial accounting given for cash loans and credit sales made in either direction was confined to keeping track of balances owing to or by the merchant. There was no trace of accounting for cash holdings, inventory levels, or (of course) profit.

Single-entry bookkeeping was covered in two pages of exposition and six pages of illustrative daybook and ledger material. For a balancing process that could be undertaken at regular intervals if desired, only "personal" accounts representing the seven parties with whom the merchant had conducted business were used. A daybook entry consisted of a debit or credit to a personal account.

Debits indicated that goods had been sold on credit to the person involved, that money had been lent to him, or that cash had been paid to him in repayment of a debt. Credits indicated identical transactions occurring in the reverse direction.[50] Use of the debit-credit notation represented one difference between the day book and the double-entry "waste" book discussed below.

The basic structure of daybook entries is illustrated in exhibit 1, showing hypothetical transactions of January 1789 between Sarjeant and Thomas Drake. Sarjeant favored separate columns for debits and credits in the ledger, also illustrated in the exhibit, although he observed that some bookkeepers used opposite pages instead.[51]

Two especially interesting features of the single-entry ledger would reappear in double-entry coverage. First, the ledger was accompanied by an "Alphabet," an index and chart of accounts whose importance to early bookkeeping practice and subsequent study thereof has been explained by Yamey.[52] Second the only non-personal account was "Balance," used in single entry simply to tally, whenever desired, the net debtor or creditor position of each person represented. Each personal account was closed to Balance in a transfer constituting the only hint of a double-entry element (purely formal in nature) within the procedure. Use of the notation "Carried to the next Ledger" reflected the purpose of filing the receivable and payable balances that would be recorded in re-opening the books.[53] Adapted to a much more complex framework, the use of a Balance account was an established element of mercantile bookkeeping by double entry as well.

"Section the Third: Book-keeping by Double Entry"

Sarjeant regarded the double-entry procedure used by wholesale traders and other merchants as "the most perfect" method "ever invented," accounting for all basic elements of mercantile business. Replacing the day book were a "waste" book providing a narrative description of each transaction, and a "journal" translating that information into the "more methodical and Commercial" account

EXHIBIT 1

SELECTED SINGLE-ENTRY DAYBOOK ENTRIES AND ACCOUNT LEDGERS

Daybook Entries: Transactions with Thomas Drake

Folio[a]		Philadelphia, January 1, 1789				£.	s.	d.
5		*Thomas Drake, Dr.*						
			s.	*d.*				
	A pipe of Gallipoly oil,	at	3	6	a *gall.*	22	1	0
		Jan. 10						
5		*Thomas Drake, Cr.*						
			s.	*d.*				
	2½ *cwt.* Brown soap,	at	56	0	a *cwt.*			
	36 *lb.* Pohea tea,	at	4	3	a *lb.*			
						14	13	0
		Jan. 16						
5		*Thomas Drake, Dr.*						
			s.	*d.*				
	31½ *cwt.* Hops,	at	45	6	a *cwt.*	71	13	3
		Jan. 28						
5		*Thomas Drake, Cr.*						
	Public Securities,	valued at				60	0	0

Account Ledgers: "Thomas Drake" and "Balance"

		Thomas Drake,	*Debtor*			*Fol.*[a]	*Creditor*		
1789			£.	*s.*	*d.*		£.	*s.*	*d.*
Jan.	1	Gallipoly oil,	22	1	0	1			
	10	Sundries,				2	14	13	0
	16	Hops,	71	13	3	2			
	28	Public Securities,				4	60	0	0
	31	Carried to the next Ledger,					19	1	3
			93	14	3		93	14	3

	Balance,	*Debtor*			*Fol.*	*Creditor*		
1789								
Jan. 31	Thomas Drake	19	1	3	5			
	Samuel Griffiths				5	135	13	0
	Thomas Wilson	24	16	0	5			
	John Cornman	98	18	3½	6			
		142	15	6½		135	13	0

SOURCE: Sarjeant, 1789b, pp. [21-26].
[a]Pages on which, or from which, entries are posted.

form. The journal was "preparatory" to a ledger containing accounts of at least six basic kinds.[54]

According to Sarjeant, "Almost the whole mystery of bookkeeping" lay in the journalizing process. This "Art" was based on two simple rules:

> Whatever the Merchant possesses, or whoever is accountable to him, is DEBTOR; and if he asks on what account? the answer shews the CREDITOR
>
> [and]
>
> Whatever he parts with, and every person to whom he is accountable, is CREDITOR; and if he asks on what account? the answer shews the DEBTOR.[55]

At seven pages of exposition and nineteen of illustration, the third section represented more than half of the text. The most striking feature of the accounting method presented was the closing of *all* accounts at each time of reckoning, a practice particularly suited to "venture" accounting. Traditionally, venture books had been closed at the end of each voyage or expedition rather than on a periodic basis, while other merchants had made an accounting whenever their books were filled or such action was otherwise convenient. Although Sarjeant did not discuss periodicity, and both sets of books illustrated were closed after one month, by the time he wrote the use of an annual accounting period was commonplace.[56] Such an approach would have been particularly appropriate for the "sedentary" merchant conducting his business from a permanent headquarters.

Sarjeant identified six basic double-entry accounts:

a. Stock, the merchant's capital account
b. Cash
c. Goods, for each class of inventory
d. Persons, as in single entry
e. Profit and Loss, in modern terms the only "nominal" account
f. Balance, used to record "real" account balances at the closing date.[57]

At the beginning of an accounting period, Cash, specific Goods accounts, and all Person accounts representing net debtors were debited to record the merchant's "property," and all Person accounts representing net creditors were credited to record his "debts." Stock was credited for all property and debited for all debts. Beginning amounts would be taken from the Balance account of the books just closed.

Unlike the first method discussed, the double-entry system accounted for net increase or decrease in stock, or the merchant's income. The gain or loss on each class of goods sold was recorded in the inventory accounts themselves. They were debited for the cost of amounts held at the beginning of the period and the cost of current purchases, and credited for the *selling price* of quantities sold and the cost of amounts held on the closing date. In the latter case the debit was to Balance, to record the next opening amount for the inventory item. In a variant of this approach not mentioned by Sarjeant, but sometimes found in mercantile accounting texts, ending inventory would be entered at a current valuation, especially market value, rather than at cost.[58]

As a result of this process, the net credit (or debit) balance in an inventory account would represent gross profit (or loss) on sales. That amount would be closed to the Profit and Loss account, which would thus ordinarily show a credit entry for each class of inventory sold. In the same account Sarjeant directly entered all other elements effecting a change in the merchant's capital, using no specific revenue or expense accounts. His example supports the familiar observation that mercantile accounting intermingled business and personal affairs. Besides gross profit on each class of goods, interest on a loan, and profit on a voyage, Sarjeant recorded as revenues a legacy received from a relative and winnings from a popular eighteenth-century card game. Recorded expenses included a month's household costs, charity payments to servants, and payment of a poor tax, as well as interest cost and the bookkeeper's salary and expenses.

As the only nominal account used, Profit and Loss was closed to Stock, to add the current net gain to the merchant's capital, or to deduct the net loss therefrom. To complete the accounting process, finally, Stock, Cash, and the Person accounts were closed to Balance, already showing the ending inventory amounts. The Balance account would then show the balances at which each of the other accounts should be reopened.[59]

The mercantile system just described is illustrated in exhibit 2, showing ledgers for Stock, an inventory account, Profit and Loss, and Balance. For simplicity, reference numbers identifying page locations of the journal entries have been omitted, and an account format has been used in place of opposite pages. For consistency, and to show the balancing process as a transition between one ledger and its successor, the closing entries have been dated January 31, Sarjeant entered no dates regarding the accounts closed, and (in keeping with the notation "Carried to the next Ledger") signified that the recorded amounts represented new opening balances by dating the Balance account entries February 1.

In illustrating the waste book and journal, Sarjeant juxtaposed the corresponding elements from the two account books, comprising a total of six pages. Six double-page "Folios" of ledger records followed. The text then ended with a ledger alphabet listing twenty-two distinct accounts. The highly unusual placement of the index after the ledger was presumably an accident of page structure, based upon need for double pages for the ledger and the dual presentation of the other books, and only a single page for the alphabet.[60]

Although unduly modest in declining the title of "author," Thomas Sarjeant was fully justified in disclaiming for *Counting House* any innovation in bookkeeping method.

Sarjeant and the Accounting Literary Tradition

Use of the wastebook, journal, and ledger (sometimes written "leidger" or, especially, "leger") as the principal books of account, and of the distinctive mercantile method of reckoning illustrated in exhibit 2, were staples of British accounting long before Sarjeant's time. In illustrating the three books in 1652 (relative to a sample venture), John Collins used a simplified procedure. He closed gross profit amounts to "Ballance," dispensing with stock (earlier illustrated) and profit/loss accounts.[61] Over the last quarter of the 1600s, the basic method presented a century later by Sarjeant was laid out by such prominent writers as Stephen Monteague (who used no journal), Richard Colinson, John Hawkins, and Edward Hatton.[62]

That approach pervaded the British and Irish accounting literature of the following century. For example, it was taken by Alexander Malcolm, Alexander Macghie, and William Webster, and later by Mair, Dilworth, Gordon, Dowling, and Hamilton, authors previously identified (along with Hatton and Webster) as popular within America of the late colonial or early national years.[63] The Herwood Library of Accountancy reveals many other pertinent sources, notably the work of William Jackson, an expositor of Daniel Dowling's system, whose *Book-Keeping in the True Italian Form* (1778) would later be issued in at least five American editions. The

EXHIBIT 2
SAMPLE DOUBLE-ENTRY LEDGERS (SIMPLIFIED)

STOCK

1789		£.	s.	d.	1789		£.	s.	d.
Jan. 1	To Thomas Drake on bond	16	0	0	Jan. 1	By Cash	100	0	0
	To Samuel Taylor on account	2	0	0		By Hops, 10 bags/£ 3	30	0	0
31	To Balance, for the Neat of my Estate	367	14	6		By Wine . . .	81	0	0
		385	14	6		By Broad Cloth . . .	153	0	0
						By John Woolston, owes on demand	10	10	0
						By Profit and Loss gained by Trade	11	4	6
							385	14	6

CHEESE

		£.	s.	d.			£.	s.	d.
Jan. 2	To Cash paid for 10 cwt. of Cheshire	10	2	6	Jan. 25	By Voyage to New York — 2 cwt. of Cheshire at sales price	2	10	0
20	To Cyder, bartered for 10 cwt. of Gloucester	12	0	0	31	By Balance remains 8 cwt. of Cheshire	8	2	0
31	To Profit and Loss gained	0	9	6		By Balance remains 10 cwt. of Gloucester	12	0	0
		22	12	0			22	12	0

PROFIT AND LOSS

		£.	s.	d.			£.	s.	d.
Jan. 5	To Cash — a month's household expences	4	15	0	Jan. 5	By Cash — a legacy left by my uncle	5	0	0
12	To Cash — Thomas Drake's Interest	0	4	0	13	By Cash — won at Quadrille	2	2	0
14	To Cash — poor tax	0	2	6	31	By Hops gained	6	0	0
15	To Cash — given G.W.'s servants	0	5	0		By Wine gained	9	10	0
17	To Cash — bookkeeper's salary and expences	15	0	0		By Broad Cloth gained	3	0	0
31	To Stock gained by Trade	11	4	6		By Cheese gained	0	9	6
						By Cyder gained	3	0	0
						By John Cornman, voyage to N.Y. gained	2	9	6
		31	11	0			31	11	0

BALANCE

		£.	s.	d.			£.	s.	d.
Jan. 31	To Cash	118	1	0	Jan. 31	By Thomas Drake, due to him	6	0	0
	To Hops, 6 bags at £ 3	18	0	0		By Samuel Taylor	2	12	0
	To Wine	40	10	0		By Thomas Wilson, Esq.	4	0	0
	To Broad Cloth	127	10	0		By William King	10	0	0
	To John Woolston, due on demand	5	10	0		By Stock, for the Neat of my Estate	367	14	6
	To Cheshire Cheese	8	2	0			390	6	6
	To Gloucester Cheese	12	0	0					
	To Tobacco	20	12	0					
	To Samuel Griffiths, due to me	28	10	0					
	To Andrew Thompson	5	0	0					
	To John Cornman	1	3	6					
	To Sugar	5	8	0					
		390	6	6					

SOURCE: Sarjeant, 1789b, pp. [40-41, 44-45, 50-51].

latter imprints were preceded by appearance in 1794 of posthumous American editions of the bookkeeping texts by Dilworth and the Rev. Richard Turner, both fully within the mercantile tradition.[64]

The established double-entry system presented in *Counting House* would dominate the accounting literature of the United States through the Civil War period, at least. Subject to minor variation, it was presented by such leading nineteenth-century authors as Thomas Turner, Bryant Sheys, James A. Bennet, Christopher Columbus Marsh, Benjamin Franklin Foster, J. C. Colt, Nicholas Harris, S. W. Crittenton, Thomas Jones, Peter Duff, and H. S. Bryant and H. D. Stratton.[65] Several variations were purely verbal, or largely so. American writers generally referred to the account book of narrative description as the "day" book. The "Stock" account was obviously not suited to partnership accounting, as implied or illustrated by Marsh and by Bryant and Stratton. George N. Comer went further, using a specific proprietorship account. Beginning with Thomas Turner, who closed "Old" accounts directly to "New" ones, several authors dispensed with the Balance account.[66]

Other format changes included abandonment of double-page ledgers, and a general movement away from use of a ledger alphabet. William Mitchell, a traditionalist in those respects, proposed a major substance change in the mercantile system in his famous 1796 book. He sought to combine the "simplicity of Single, with all the Advantages of Double Entry," by employing "Cash," "Day," and "Bill" books in lieu of a general "journal." Comer took a similar approach fifty years later. Even so, both authors presented traditional expositions of inventory accounting and income determination.[67]

Finally, the bookkeeping system presented by Sarjeant in 1789 could still be found in the leading books of the beginning of the twentieth century. In particular, the eminent New Orleans educator George Soulé showed the traditional mercantile system as the opening "scientific" practice set in the seventh edition of his *New Science and Practice of Accounts,* published in 1903 (and reprinted in 1976). The format differed from Sarjeant's only in using a proprietorship account in place of Stock. Soulé explained, however, that in a day of widespread use of specialized records such as invoices, sales, cash, and bill books, the day book had become "obsolete," and the general journal was needed only for entry of transactions not accommodated within such other books.[68]

Distribution of Counting House

During the first few years after its publication, Sarjeant's bookkeeping text was available for sale in at least three cities, in as many states.

The title page of *Counting House,* as quoted earlier, indicated that the book had been printed for sale at no fewer than five Philadelphia book stores. Five years later, in 1794, bookseller Samuel Campbell of the same city reported new printings of several works by Sarjeant, including the accounting book, for sale at his shop. The following year Henry and Patrick Rice, presumably the owners of original distributor "Rice & Co.," listed *Counting House* among their current stock of books for sale.[69]

Sarjeant's text had also been advertised for sale in two New England cities. At the Boston Book-store, under the ownership of Benjamin Guild and William P. Blake, it was available in 1789 and 1793 for purchase or borrowing, on a subscription basis. In that formative era of circulating libraries, the selling and lending functions were sometimes combined by book dealers.[70]

Finally, *Counting House* was advertised for sale in 1791 by Isaac Beers, a bookseller in New Haven, Connecticut. Like each of the other distributors cited, Beers also listed Sarjeant's *Elementary Principles of Arithmetic,* a work sometimes found for sale in bookstores that did not carry the bookkeeping text. Three of the other dealers also listed at least one further work by Sarjeant, specifically, a contribution to the shorthand literature.[71]

Other Works by Sarjeant

Three Editions of "Gurney's Short Hand," and Unavailable Mathematical and Grammatical Materials

The Readex Early American Imprints series, 1639-1800, contains three revised editions brought out by Sarjeant (or a publisher) of "An Easy and Compendious System of Short Hand," by the English authority Thomas Gurney, 1705-1770. One of them was textually identical to another, but redesigned. The original American edition was published by Dobson and Lang in 1789. It contained 48 pages of text, inclusive of twelve illustrative plates, and 8 pages comprised of testimonials to Gurney, other front matter, and advertising for Sarjeant. The purpose of the edition was to fill a void within the new nation in coverage of a skill increasingly useful to the "Arts, Sciences, and . . . Learned Professions."[72]

Editor Sarjeant asserted that a basic knowledge of shorthand could be obtained in "a few Hours" of practice in application of Gurney's method, and promised to emulate the English master of "Brachygraphy" by responding to written requests for assistance in interpretation.[73]

In 1792, Sarjeant published an abridgement of the shorthand book in response to requests from "Seminaries of Learning" and "Booksellers" for a less exacting study of the field. Printed by Lang for Dobson, the abridged edition comprised just thirty-one pages, including ten plates.[74] Finally, in 1799, a Lancaster printer released on behalf of the Philadelphia bookseller Mathew Carey the official "Second American Edition" of Gurney's shorthand, a virtual reprint of Sarjeant's original edition omitting some of the preliminary material.[75]

The only other work authored or edited by Thomas Sarjeant that is available within the Readex series is a 1793 book described below. From advertisements appearing in that item, *Counting House,* the first shorthand text, and other sources, several other publications have been identified. Listed chronologically, and citing a problematic final case, they include:

1. *Twenty Arithmetical Tables,* 1786
2. *A Paradigm of Inflections of Words in the English Language,* 1788
3. *A Synopsis of Logarithmical Arithmetic,* 1788
4. *Select Arithmetical Tables,* 1788, 1789
5. *Select Arithmetical Exercises,* a work of applications to mathematical sciences and natural philosopy advertised in 1793 as in progress.

Among at least the first four items, titles and comparative cost data suggest that only the study of logarithms was a full-length book.[76]

By far the longest of Sarjeant's available works was published in 1793. It ranks with his arithmetic and bookkeeping texts as an important contribution to early commercial literature in the United States, initiating a series of uniquely American works.

The Federal Arithmetician, 1793

A newspaper advertisement of November 17, 1790, stated that "[i]n a few days" printer Dobson would publish *The Federal Arithmetician,* by Thomas Sarjeant.[77] There is no other record, however, of publication of such a work before 1793, when Dobson issued the book of 263 pages, plus five folded plates. The author's preface was dated June 1, 1793.[78] In all probability Sarjeant decided to defer publication so that he could cover further developments in this dynamic field.

The Federal Arithmetician; Or the Science of Numbers, IMPROVED was written with two objectives in view:

> to apply the Science of Arithmetic to the Money of Account of the UNITED STATES OF AMERICA
>
> [and]
>
> to render many of the Rules of the Science more simple in their operation; and more extensive in their application to Trade and Business, and to the affairs of Human Life.[79]

After presenting selected arithmetical definitions and principles (pp. 1-16), Sarjeant covered "vulgar" and "decimal" fractions (17-82); the evolving federal monetary system (83-101); logarithms (102-124); "Universal Rules" of proportion (125-52); simple and compound interest (153-206); and "Exchange," emphasizing monetary conversion (207-263).

A few specific points may be noted. First, the federal monetary system of dollars and cents was being revised even as Sarjeant wrote. Initially he cited the denominations "eagle" (ten-dollar coin), "half-eagle," dollar, half-dollar, "double-dime" (twenty-cent coin), dime, cent, and "half-cent."[80] The last section, however, excerpting the Act of Congress that had established the federal mint (April 2, 1792), referred to "quarter eagles," "quarter dollars," and "Half dismes" (new spelling), but not double dimes.[81] The folded plate inserted at the front reflected the later developments. The first dollar would be minted the year after publication of the book.[82]

Second, Sarjeant discussed possible notations for *sums* of coins. Although he favored a "decimal" approach, he illustrated use of an "account" format. The amount fifteen dollars, six dimes, four cents, and two mills (not included among planned coin denominations) was shown by four adjoining account columns headed by the abbreviations 'Dolls.', 'd.'. 'c.', and 'm'.[83]

Third, Sarjeant anticipated adoption in the near future of a decimal system of American weights and measures, an expectation that would have been encouraged by Senate proposals that he cited.[84]

Finally, there was lengthy coverage of monetary "Exchange," of two kinds. "Continental" exchange concerned conversion relationships between denominations of the new federal monetary system and those of the British-oriented systems found in the various states.[85] Coverage of "Foreign," or international, monetary exchange included analysis of the pertinence of trade balances thereto.[86]

Five other authors would publish somewhat similar books in New York State or New England between 1797 and 1800. A much shorter publication that had preceded Sarjeant's own study should be noted first, however. Although Sarjeant's work was apparently the first full-scale book on federal arithmetic, John Beale Bordley had four years earlier, in 1789, brought out a 26-page essay on the topic. More than half of *On Monies, Coins, Weights, and Measures, Proposed for the United States of America,* published in Philadelphia a year before it became (again) the national capital, concerned the federal monetary system in its very first outline form, involving a purely decimal structure of which the author heartily approved. Bordley noted that the sequence of five values adopted in 1786— eagle, dollar, dime, cent, and mill — lent itself to representation of a monetary amount in as many as five columns or as one (cents). Anticipating Sarjeant, he wrote that the new nation was "in a fine situation to avoid" a non-decimal system of weights, as was prevalent in Europe. Coverage was concluded with illustration of adaptation within several states of the English tradition of volume measurement.[87]

Two major works on Federal arithmetic came out in 1797 under essentially the same title, already associated (in its more modern form) with Benjamin Workman's arithmetic text of eight years earlier. In *The American Accomptant* (Lansingburgh, N.Y.), a work of some 300 pages reprinted in a recent series, the Rev. Chauncey Lee also covered related topics in commercial mathematics and devoted a chapter to double-entry bookkeeping.[88] In New York City the same year William Milns of Oxford University published *The American Accountant,* a mercantile arithmetic book of comparable size that was adapted to American and British commerce in general, and covered foreign exchange in particular.[89]

Appearing also in 1797 (Exeter, N.H.) was *The Federal Arithmetic* by James Noyes, an unusually young author (18 or 19) who would live only two more years. Although much shorter, at 128 pages, this book may have been based upon Miln's text.[90] A year later, in Newburgh, N.Y., Irish mathematician Peter Tharp published *A New and Complete System of Federal Arithmetic, in Three Parts,* the basic text covering fewer than 100 pages.[91] Finally, a text of similar length covering American money, weights, and measures, along with related topics in commercial arithmetic, was issued in New

Haven, Conn., in 1800. David Cook, Jr.'s *American Arithmetic; Being a System of Decimal Arithmetic . . . comporting with the Federal Currency of the United States of America* came complete with several testimonials, one of them signed by Isaac Beers, the local bookseller who nine years earlier had listed Sarjeant's *Elementary Principles of Arithmetic* among his stock.[92]

Sarjeant as America's "First" Author on Accounting (and Federal Arithmetic)

Sarjeant merits recognition as an author on the basis of the preceding review of his work alone, without regard to chronological rankings. *Counting House* was a highly competent text that, having preceded Mitchell's 1796 book by seven years, was unquestionably among the earliest American accounting works. *Elementary Principles* was a distinguished contribution to commercial arithmetic appearing in the very same year as Pike's celebrated text (1788), and *The Federal Arithmetician* was a remarkably rich study of a new development.

Thorough review of the most authoritative source of early American bibliography, and follow-up use of the comprehensive microform series to which it is keyed, have yielded strong evidence, however, that Sarjeant was genuinely America's first author on accounting and (on the scale of a book) federal arithmetic. Since the other early works discovered in the latter area have already been identified, attention may be confined below to the accounting literature.

Although a variety of earlier titles suggested accounting subject-matter, Sarjeant appears to have been not merely the first resident author in the field, but actually the first writer from anywhere of an accounting text published in America. As will be explained later, that distinction was evidently almost earned instead by a contemporary British emigrant, David Franks of New York.

Method of research

There are two basic alternatives, mutually compatible, to the assumption that Sarjeant was in fact the "pioneer American author" rather than Mitchell. One is that at least one accounting work was produced prior to 1789 by an acknowledged American writer. The other possibility, raised by Previts and Merino, is that at least one such book appeared in colonial America ostensibly under British or Irish authorship, but actually as the work of an American resident seeking "to appeal to a market that favored British authorship and expertise."[93] A third possibility, not relevant to identification of the first American writer, is that one or more accounting books by British or other Old World authors (first editions or otherwise) were printed in America prior to 1789.

Partially in order to identify any accounting literature that might have been published in America prior to Sarjeant's *Counting House,* Shipton and Mooney's two-volume *National Index of American Imprints Through 1800* (1639-1800) was reviewed on an item-by-item basis; and all seemingly pertinent titles were then looked up in the associated Readex Early American Imprints microprint series. Yamey, Edey, and Thompson's study *Accounting in England and Scotland: 1543-1800,* covering various Irish works as well, served as a general reference for identifying works whose incorporation of accounting material might not be indicated by their titles. The large majority of the nearly fifty thousand books and other printed materials indexed by Shipton and Mooney are available in Readex editions, including all but one item of especial interest.

The results of the search are rather striking.

No full-scale accounting works before 1788

No book devoted principally to accounting has been identified over the first 149 years of American printing, 1639-1787.[94] Only two works appear to have included even significant coverage of bookkeeping topics: *The* [*American*] *Instructor,* published in its first colonial edition in 1748, and Andrew Bradford's *Young Secretary's Guide.*

Although no Readex reprint exists, the twenty-first edition of *The Young Man's Best Companion, or Arithmetic made easie . . .* [*with*] *Rules and Directions for Book-keeping, or Merchants Accompts* was reportedly issued in New York in 1762. Sometimes cited in colonial book listings, this general-purpose manual had been originated in 1681 by English writer William Mather. The bookkeeping section had been added in 1734, probably well after Mather's death, and apparently many years after his withdrawal from editorial or proprietary involvement in the series (although he would continue to be listed as author).[95]

The earlier discussion of Bradford's *Guide* stated that the bookkeeping coverage had been drawn "at one remove" from Fisher's *Instructor.* As documented by McMickle, the intermediate source was none other than Mather's *Companion.* Hence, counting as a single item the long series of American imprints of the Instructor, the only three American publications through 1787 that are known to have covered bookkeeping were (with isolated trivial exception) *identical* in that regard by virtue of the "double plagiarism" discovered by McMickle.[96]

The absence of local editions of British accounting texts is explained by the ready availability of such works to the colonists in the normal course of trade with the mother country. Also, special precautions might sometimes have been taken against "piracy" in the form of unauthorized overseas imprints, as in the case a bit later (1807) of the Irish accounting writer Paul Deigham.[97] It is interesting to note that several American editions would appear not long after the first United States copyright law was adopted, in 1790. In that same year, a text by English author Charles Hutton was reprinted in New Jersey; 1794 editions of works by Thomas Dilworth and Richard Turner have already been cited; and *Jones's English System of Book-Keeping* by Edward Thomas Jones was published in both English and American first editions in 1796. Also, published in Delaware in 1795 was an American edition (appropriately retitled) of Daniel Fenning's general manual *The English Youth's Instructor,* which included "a compendious method of bookkeeping."[98] Titles of several earlier American publications not actually dealing with the field nonetheless included terms related to accounting.

Nonaccounting literature having accounting-related titles

The titles of four imprints from the years 1775-89, besides Sarjeant's bookkeeping text, included the term "counting house" or an equivalent:

1. *The Counting-house Almanac for . . . 1775* (Philadelphia)
2. *Bailey's Counting-house Almanac for . . . 1786* (Philadelphia)
3. *Compting-Room Companion, an Abstract of the Coasting-Act* (Boston, 1789)
4. *A Companion for the Counting House, or Duties Payable* (Philadelphia, 1789).[99]

The first three of these items are unavailable. The titles indicate, however, that two of them represented a classic species of eighteenth-century literature, the almanac, while the third concerned contemporary maritime legislation. Countinghouse almanacs probably emphasized information of particular concern to traders, such as commercial duties, customhouse records and regulations, and interest tables, rather than astrological forecasts. Approximately two thirds of the thirteen-page fourth item were devoted to United States import duties and related commercial fees, while the balance primarily covered forms used at the Philadelphia custom house. The United States coin system adopted in 1786 was also presented.[100]

Seven colonial-era publications should likewise be noted by virtue of title (or author designation). Issued in Boston in 1703, was the third edition of *The Young Secretary's Guide, or, a Speedy help to Learning,* by John Hill, listed as "Thomas" Hill in all but one American printing. This self-instructor book had first appeared in Boston nine years earlier, four years before William Bradford had issued the first edition of *The Secretary's Guide* in New York.

Representing the first fourteen editions or printings that would appear in the colonies by midcentury, the 1703 volume had been "Made suitable to the People of New Eng[land]." Hill began by illustrating all manner of personal and business correspondence, explaining pertinent matters of form, and providing a short dictionary of "difficult" English words; moved on to cover a remarkable variety of commercial and legal documents; and concluded by presenting a table of simple interest. At one point he illustrated the "accompt" of an estate administrator.[101]

Fair Dealing between Debtor and Creditor, a 1716 lecture by the remarkably learned Boston clergyman Cotton Mather, and *Debtor and Creditor,* a 1762 essay having no listed author, were essentially admonitions to borrowers, or lenders and borrowers alike, from a scriptural standpoint. The subtitle of the latter work was drawn from a familiar parable found in the Gospel of St. Matthew.[102]

The Merchant's Magazine by Robert Biscoe, published in 1743, and *The Ready Reckoner* by Daniel Fenning, issued in the first of many American editions (several of them in the German language) in 1774, were both voluminous collections of tables useful for trade. Biscoe's coverage was somewhat broader in scope. Relatedly, an American edition of *The Negociator's Magazine,* a book primarily on foreign exchange by English author Richard Hayes, was reportedly published in 1764. Hayes, identified as an "accountant," produced at least three distinct works in bookkeeping.[103]

Finally, the earliest American editions of *The London Merchant,* a play by George Lillo (1693-1739), were published in Boston and Philadelphia in 1774.[104]

Although none of these pre-1789 items was an accounting book, it appears that an American writer had actually completed such a work more than three years before Sarjeant's *Counting House* appeared, with plans for publication.

Report of an Unpublished Bookkeeping Work by David Franks, Completed by 1786

In 1786 and 1787 a property lawyer named David Franks published the first two city directories for New York. Franks was an Irishman, perhaps of Jewish descent, who had served as an apprentice to his father, in Dublin an "eminent attorney," and conducted business for some years in association with another lawyer. The first directory advertised the compiler's services as a "Conveyancer and Accountant" at No. 66 Broadway, providing a fee schedule reflecting the "cheapness" of his professional services.[105] Franks should not be confused with "a notorious Hebrew loyalist of the same name" who was born in New York in 1720 and spent most of his life in Philadelphia, but was twice arrested by the American side during the Revolutionary War.[106]

David Franks the conveyancer and directory compiler is of interest to accounting historians solely for writing near the close of the directory issued in February 1786 that he had already prepared

> for *publication,* a TREATISE of BOOK-KEEPING, digested for the inland and foreign Trade of *America* . . . [, that he would be glad to submit for advance inspection by] the Gentlemen of the Mercantile Line.[107]

Contemporary usage of the term "book-keeping" leaves no reasonable doubt that Franks was referring to subject-matter primarily in accounting, rather than in mercantile record-keeping of other kinds. It may be noted, however, that in an 1837 circular for his New York commercial college B. F. Foster also spoke of applications to ' "inland and foreign trade" ' in describing his commitment to accounting instruction.[108]

There is no record of publication of a bookkeeping work by Franks, whose only known writings are the two New York City volumes. The 1787 directory made no reference to the book, and Franks, who had planned to issue an updated edition each May, was not even listed among the city's residents in the next volume, dated 1791.[109] Perhaps the author died before he could arrange for his book to be published.

Thomas Sarjeant's contributions to the American commercial literature, and in particular his apparent standing as the first accounting writer, have now been documented in detail. Sarjeant's *Counting House* invites strong consideration for recognition within a future accounting reprint series, perhaps along with the American editions of the works by Dilworth and Richard Turner that also preceded Mitchell's 1796 text.

FOOTNOTES[b]

[b]Page numbers are imputed to prefatory material as needed, beginning with p. [iii). Because front matter is occasionally paginated on a different basis (notably in the case of Sarjeant, 1788), title pages are identified as such rather than numerically.

[1]Bentley, vol. 1, p. iii.; Brief, p. 18, and Mitchell.

[2]McMickle, p. 36; and Shipton and Mooney, s.v. "[Hutton, Charles, 1737-1823 . . .]." According to the latter source, Hutton's book was published in 1790 in "Burlington," a name under which two American cities had by then been chartered. The city in New Jersey had already existed for many years, however, given that Franklin had printed the first colonial money there in 1726, while the community in Vermont would not actually be organized until 1797, *Funk & Wagnalls*, s.v. "Burlington."

[3][Bradford], especially pp. 126-39 (accounting section); Fisher, title page, quoted; *Funk & Wagnalls*, s.v. "Bradford, William (1663-1752)"; McMickle, pp. 38, 43-46, 50; Shipton and Mooney, s.v. "[Bradford, William, . . . 1698]"; and Yamey, Edey, and Thomson, p. 213.

[4]Previts and Merino, p. 28; White, p. 94; and Workman, 1789 and 1793. Mercantile arithmetic is covered on pp. 101-189 of Workman's first edition and 101-105 of the 1793 revision edited by University of Pennsylvania professor R. Patterson (title page). A third edition, not inspected but identical in length to the second one, was issued in 1796. Shipton and Mooney, s.v. "Workman, Benjamin."

[5]Bentley, vol. 1, p. v; and *Funk & Wagnalls,* s.v. "Copyright," report that the nation's first copyright law was adopted in 1790.

[6]*A Catalog of Books . . .*, s.v. "Evans, Charles, 1850-1935"; *Dictionary of American Biography,* s.v. "Evans, Charles"; Shipton and Mooney, vol. 1, pp. vi-vii; and Shipton and Mooney, s.v. "Sarjeant, Thomas," no. 22127. Evans cited full titles, often exceedingly long.

[7]Carpenter, p. 6; and *Goldsmiths-Kress Library,* s.v. "1789."

[8]Herwood, pp. [vii] and 194 (the page on which Sarjeant would have been cited within the alphabetical author listing of American books). Although the Herwood collection grew somewhat after the catalog was issued, very extensive inspection of the holdings in the spring of 1984 (April 9-13), at the University of Baltimore, turned up nothing by Sarjeant. Cataloging was by then virtually complete.

[9]Cremin, pp. 398-99; Lapsansky; and Library Company of Philadelphia, 1789, pp. 217-22, 286-89; 1793; 1794; 1796; 1798; 1799; and 1835, vol. 1, pp. [ix]-xi, 380-81.

[10]Laverty.

[11]Beck, 1984a,b; "Catalogue of the Library of the South Carolina College," pp. 68, 115; OCLC Search; and Shipton and Mooney, s.v. "Sarjeant, Thomas." Accord-

ing to the catalog of that year, the University of South Carolina (then South Carolina College) did not own a copy of Sarjeant's text in 1849. The copy currently held in the university's rare books collection is in such delicate condition that only the cover page could be photocopied.

[12]Lapsansky, and Latham.

[13]Previts and Sheldahl, pp. 52-56.

[14]Cremin, pp. 394-95.

[15]Bowden, pp. 55, 62-63, 68-69, 91-93; Cohen, vol. 1, pp. 439-47; Holmes, Kistler, and Corsini, pp. 101, 103-106; Knight, vol. 1, pp. 652-53, 657-59, 661: Seybolt, 1925a, pp. 25-29, 65-68; and Seybolt, 1925b, pp. 39, 44-53. Each source cited includes sample advertisements by entrepreneurial teachers of the eighteenth century, in which bookkeeping (by double entry, usually) was listed as an instructional area. A measure of overlap exists, since Cohen and Holmes, et al. drew their material almost entirely from works by Seybolt. Several additional items of the sort from the late colonial period are found in *The Virginia Gazette*. Since the field was frequently included among numerous teaching subjects, it may be apt to note Fisher's remark that bookkeeping was often listed to enhance the image of the instructor rather than to report actual qualifications. Fisher, p. 153.

[16]Baxter, pp. 280-81; Dilworth, 1768, p. [v]; Salsbury, p. 608; and Seybolt, 1925a, pp. 39-40. Dilworth was very critical of the reliance of many British academies on manuscripts, or "written copies," in place of textbooks. The absence of locally published texts may well have promoted such a practice within the American colonies. The commercial colleges established in the following century generally relied upon "manuscripts prepared by actual accountants engaged in business," rather than textbooks, as late as the 1850s. James, pp. 658-59, quoting latter page.

[17]Cremin, pp. 500-505.

[18]Cremin, p. 505.

[19]Cremin, pp. 402, 403 (double quotes); Seybolt, 1925b, pp. 47, 91-92; and [Trustees of the Academy of Philadelphia] ("Merchants Accounts"). Grew, who died in 1759, compiled a number of annual almanacks, for several localities. Shipton and Mooney, s.v. "Grew, Theophilus, 1759."

[20]Cappon and Duff, s.v. "Convict servants as accountants," "Convict servants as bookkeepers," "Indentured servants as accountants," "Indentured servants as bookkeepers"; Riley, pp. xvii-xviii; and *The Virginia Gazette,* tutor-related advertising notices of September 20, 1770 p. 3, col. 2 (3:2); November 29, 1770, 3:1; October 15, 1772, 2:3; and December 10, 1772, 2:3. A number of *Gazette* references are listed by Cappon and Duff under the headings given, but they have not been examined as yet to determine relevance to instruction. The specific *Gazette* references cited are to the series printed by Dixon and Purdie except for the second one, which refers to an issue from the series issued by Rind.

[21]Mair, 1793, pp. 495-532, quoting from italicized headings, p. 495; Mepham and Stone, pp. 128-32; and Shipton and Mooney, s.v. "Mair, John, 1702?-1769." The Norwegian edition of *Methodiz'd* was the first bookkeeping work to appear in that language and the first foreign translation of an English text in the field. Mair, 1793, "Introduction," p. 1. The author of the reprint's anonymous "Introduction" was Yamey (Brief, p. 17).

[22]This statement is based on inspection of some 160 book listings—library, retail, and auction—from the first Readex Early American Imprints series (Shipton), including essentially all such titles cited through 1795.

[23]Cohen, vol. 1, p. 539; Cremin, p. 501; Dilworth, 1786; Eldridge, p. 42; Hamilton, vol. 2; Jackson, pp. iv-v ("system"); Seybolt, 1925b, p. 50; Shipton, per note 22; and Yamey, Edey, and Thomson, pp. 207, 211, 215 (subtitle), 218, 220. Dilworth's text is dated based on the original appearance of his other two principal works in 1740 and 1743; the omission of the bookkeeping text from a 1747 title-page listing of the author's books; and the issuance of the fifth and seventh editions in 1768 and 1777. The earliest American listing found of Dilworth's text was dated 1760 (Gaine).

After completing his major accounting work (Gordon) in 1765, Gordon published *The General Counting-House, and Man of Business* a year later (Yamey, Edey, and Thomson, p. 218), a relevant book also listed occasionally in America. The reference for Postlethwayt is to *The Universal Dictionary of Trade and Commerce,* a two-volume adaptation to British commerce of the work by "the celebrated Monsieur Savary," a representative of the French throne at the Paris customhouse (Gaine, p. 10). The English author's book *The Merchant's Public Counting House,* a work likewise listed in America whose title suggests a customhouse focus, is not cited by Yamey, Edey, and Thompson (p. 215).

[24]Dilworth, 1768 (quoting title page), 1794; Mepham and Stone, p. 129; Milns, p. [iv]; Shipton, per note 22; and Shipton and Mooney, s.v. "Dilworth, Thomas, d. 1780." The Library Company of Philadelphia owns a 1775 astronomy book by Dilworth. The spelling manual was presumably *The New English Tongue,* a broader work that was issued in as many as *seventy-eight* American editions or printings during the first sixty years after its publication in 1740. Cremin, p. 501; and Shipton and Mooney, s.v. "Dilworth, Thomas, d. 1780."

The thirteenth edition of Dilworth's bookkeeping text was issued in Wilmington, Del., in 1798 (Shipton and Mooney, s.v. "Dilworth, Thomas, d. 1780"). The Herwood Library includes still a third American edition, published in 1839 in York, Pa.

[25]Cremin, pp. 394-95; Herwood, pp. 36, 154 (s.v. "Fisher, George, pseud."); Shipton, per note 22 ("Fisher's Arithmetic"); Shipton and Mooney, s.v. "[Slack, Ann (Fisher)], 1719-1778," "Fisher, George, fl. 1731"; Slack; and Yamey, Edey, and Thompson, p. 213. Franklin sold his printing business to David Hall the same year, 1748, that *The American Instructor* appeared. *Funk & Wagnalls,* s.v. "Franklin, Benjamin."

[26]Fisher, pp. [iv] (quoted), 153-64; Shipton, per note 22; and Shipton and Mooney, s.v. "Fisher, George, fl. 1731."

[27]Sarjeant, 1788, p. iv.

[28]Franklin, p. 487, summarizing the author's ambivalent attitudes toward organized religion; *Funk & Wagnalls,* s.v. "Webster, Noah" (lifespan); and Latham.

[29]Biddle, pp. 113, 115; Hardie, 1793, pp. 126, 128; Hardie, 1794, pp. 134, 137; Hogan, p. 105; Robinson (unpaginated), appropriate listings under "S"; Macpherson, pp. 118, 120; Stafford, 1797, pp. 159, 161; Stafford, 1798, pp. 124, 126; Stafford, 1799, pp. 122, 124; Stafford, 1800, pp. 108, 110; Stephens, 1796, pp. 161, 163; and White, pp. 70-72.

[30]*Funk & Wagnalls,* s.v. "Pennsylvania"; and United States Department of Commerce and Labor, p. 250.

[31]Sarjeant, 1788, title page, p. iv (second passage quoted is italicized).

[32]Sarjeant, 1788.

[33]Reigner, p. 19; and Sarjeant, 1788, pp. 54-72, quoting p. 70.

[34]Sarjeant, 1788, pp. 19-20, 28-34.

[35]Sarjeant, 1788, title page, pp. iv, [96].
[36]Sarjeant, 1788, pp. i-iv.
[37]Pike.
[38]Sarjeant, 1789b, title page.
[39]Mitchell. Three sets of books are presented, in terms of U.S. dollars and cents, pp. [9]-447.
[40]Sarjeant, 1789b, title page.
[41]Sarjeant, 1789b, p. [iii] (italicized preface).
[42]Sarjeant, 1789b, p. [iv].
[43]Sarjeant, 1789b, p. [iii] ("American Youth" not italicized).
[44]Sarjeant, 1789b, p. [iii].
[45]Sarjeant, 1789b, p. [iii].
[46]Sarjeant, 1789b, pp. [5]-15, quoting pp. 5, 14 (italics in original).
[47]Sarjeant, 1789b, p. [19].
[48]Sarjeant, 1789b, p. [19].
[49]Sarjeant, 1789b, pp. [19]-20.
[50]Sarjeant, 1789b, p. [19].
[51]Sarjeant, 1789b, p. [19].
[52]Sarjeant, 1789b, p. [24]; and Yamey.
[53]Sarjeant, 1789b, pp. [24], [26].
[54]Sarjeant, 1789b, pp. [27]-28, quoting p. 28.
[55]Sarjeant, 1789b, p. 28.
[56]Chatfield, pp. 59-60; Hamilton, vol. 2, p. 26; Mair, 1793, p. 67; Mepham, p. 46; Sarjeant, 1789b, pp. [25-26], [40-51]; and Wells, p. 50. Mair wrote in 1736 that annual balancing was a common practice. Mepham, p. 46.
[57]Sarjeant, 1789b, p. 28. Sarjeant illustrated use of "Bills Receivable" and "Bills Payable" accounts as well, pp. [48-49].
[58]Hamilton, vol. 2, p. 26; Sarjeant, 1789b, pp. [40-51]; and Wells, pp. 44-47. Based upon examination of a number of texts, Wells asserts that in preindustrial times merchants and manufacturers "commonly" valued inventories at current market price (p. 47).
[59]Sarjeant, 1789b, pp. [40-51].
[60]Sarjeant, 1789b, pp. [34-39] (waste book and journal), [40-51] (ledger), and [52] (ledger alphabet). Alexander Malcolm, a prominent British author, had earlier placed the alphabet after the ledger. Malcolm, "INDEX to the LEGER, No. I.," directly following folio 17 of "*Ledger Book.* No. I."
[61]Collins, pp. [1-11]. In a prefatory note "To the Reader," Collins implied that he had not revised the text published originally in 1652. The year 1651 was used in the specimen books.
[62]Colinson, pp. 2-5, 19-22, alphabet to first ledger ("Leger"), ledger folios 1, 2, 26; Hatton, pp. 137-41, [166-71], 170-75; Hawkins, pp. 3-6, 10-18, [191-97], [212-13], [230-31]; and Monteague, pp. [iii-iv], alphabet to ledger ("Leidger"), ledger folios 1, 5, 12, 40. The page numbered 170 in Hatton's book directly follows imputed page 171. The posthumous edition of Monteague's book cited employs the date of the first edition, 1675, in the exhibits.
[63]Dilworth, 1768, preface, alphabet to ledger, double pages 1, 2, 9, 10 of ledger; Dowling, pp. [11], 20-32; Gordon, vol. 2, pp. 50-54; Hamilton, vol. 2, pp. [19]-20, 25-28; Maghie, pp. 2-4, 43-54; Mair, 1750, pp. 2-4, 22-26, 172-73; Malcolm, pp. 91 (first page of waste-book following a pagination error), 122, ledger ("*Leger Book*") no. 1, folios 1, 2, 16, 17, ledger index; and Webster, pp. 8, 23, 33-[41]. Following the preface, Dilworth's text is composed entirely of sample account books, not paginated consecutively, and a closing "Synopsis" of rules, pp. 1-14.

[64]Herwood, pp. 55-56, 166-67, s.v. "Jackson, William"; Jackson, title page, pp. 2-6, 17-19, 50-51, 60-61, 66-69; and Rev. R. Turner, pp. [5]-8, 10-11, ledger to alphabet, ledger folios 1, 2, 7, 9.

[65]Bennet, pp. 11-16, 62-63, 68, 74; Bryant, Stratton, and Packard, pp. 11-13, 25-27, 33-36; Colt, "A Brief Plan of the Work" (front matter), pp. 17-23; Crittenton, pp. 64, 74-75; Duff, pp. 32-32; Foster, 1836, pp. 50-54; Foster, 1838, pp. 156-56, 162, 166, 169-71; Harris, pp. [7]-8, [112]-14; Jones, pp. [i], 30-31, 50-51; Marsh, pp. [15]-16, 48-53; Sheys, pp. 38-43; and Thomas Turner, pp. 11-18.

[66]Bryant, Stratton, and Packard, p. 34; Comer, pp. 11, 48; Marsh, pp. 49-50; and Thomas Turner, pp. 12-13. Comer placed his "Merchant" account at the end of the ledger, rather than at the beginning, the customary location for "Stock." Having "never been able to appreciate" its utility (p. 11), he omitted the traditional final account, "Balance."

[67]Comer, pp. 37-48; and Mitchell, pp. v (quoted), vi, 2, 58-59, 64-65, 76-77, 156-59. Comer, Harris, and Bennet continued to use a ledger alphabet. Comer, p. 36; Harris, p. [112]; and Bennet, p. [62].

[68]Soulé, pp. 20, 54-58. Soulé even indexed the ledger, p. 54.

[69]Campbell, p. 73; and Rice, p. 67.

[70]Blake, p. 35; Cremin, p. 396; and Guild, p. 29.

[71]Beers, p. 22; Blake, pp. 35-36; Campbell, pp. 35-36; Guild, p. 22; Rice, p. 67; and Shipton, per note 22.

[72]Sarjeant, 1789a, title page, original italicized except for "and"; and Shipton and Mooney, s.v. "Gurney, Thomas, 1705-1770."

[73]Sarjeant, 1789a, [4] (quoted phrase, original italicized), [10].

[74]Sarjeant, 1792.

[75]Sarjeant, 1799. Shipton and Mooney cited the 1799 edition primarily under Gurney's name (s.v. "Gurney, Thomas, 1705-1770"), no doubt because his name had been used within the short form of the title. The earlier editions had been subtitled, in part, "Gurney's Brachygraphy, Improved." Sarjeant, 1789a and 1792, title pages.

[76]Sarjeant, 1789b, p. [iv]; Sarjeant, 1793, p. [264]; and Shipton and Mooney, s.v. "Sarjeant, Thomas." The first source listed cites as a further publication "A New Edition" of "Mr. Harrison's Rudiments of English Grammar." The first American edition of Rudiments [previously "Institutes"] of English *Grammar* by English author Ralph Harrison was issued in Philadelphia in 1787, and reprinted in Wilmington, Del. as early as the following year. Five further editions would appear in Philadelphia by 1800, but no editors are cited by Shipton and Mooney, and the opening "Advertisement" appearing in at least the first two editions is not signed. Sarjeant's 1789 reference to the grammar text thus remains unexplained. Harrison, p. [vi]; and Shipton and Mooney, s.v. "Harrison, Ralph, 1748-1810."

[77]Shipton and Mooney, s.v. "Sarjeant, Thomas," no. 22870.

[78]Sarjeant, 1793, p. viii.

[79]Sarjeant, 1793, p. iii, original italicized except for the proper name, printed in capitals.

[80]Sarjeant, 1793, pp. 84-85.

[81]Sarjeant, 1793, pp. 208-209.

[82]*Funk & Wagnalls,* s.v. "Dollar."

[83]Sarjeant, 1793, pp. 85-86.

[84]Sarjeant, 1793, pp. v, 212-14.

[85]Sarjeant, 1793, pp. 223-30 and unpaginated plates that directly follow.

[86]Sarjeant, 1793, pp. 231-52 and unpaginated places that directly follow p. 246. Trade balances are discussed on pp. 248-52.

[87]Bordley, quoting p. 16; *A Companion for the Counting House*, p. 9; and *Funk & Wagnalls*, s.v. "Capitals of the United States."

[88]Lee, especially pp. 248-89, which cover double-entry bookkeeping in accordance (p. xxxii) with Gordon's work (Gordon). A single-entry system for farmers, mechanics, and small-scale merchants was also very briefly presented in this recently reprinted work (pp. xxxii, 290-91).

[89]Milns, drawing particularly from title page.

[90]Noyes; and Shipton and Mooney, s.v. "Noyes, James, 1778-1799." According to the latter reference, Noyes had brought out two almanacs while yet in his midteens, three years earlier (in 1794).

[91]Tharp. The author is described on p. [ii].

[92]Cook. The testimonial letters appear on pp. 9-10.

[93]Previts and Merino, p. 40.

[94]The first colonial printing press was established at Harvard College in 1639. Urdang, s.v. "1639."

[95]Cremin, p. 503; Sheldahl; Shipton and Mooney, s.v. "Mather, William, fl. 1695"; and Yamey, Edey, and Thomson, p. 208.

[96]McMickle, pp. 34 (quoting Abstract), 44-46.

[97]Deigham, title page, p. [iii] (quoted).

[98]*Funk & Wagnalls*, s.v. "Burlington," "Copyright"; Shipton and Mooney, s.v. "Fenning, Daniel," "[Fenning, Daniel . . .]," "[Hutton, Charles, 1737-1823 . . .]," "Jones, Edward Thomas, fl. 1795"; and Yamey, Edey, and Thomson, pp. 217 (quoted), 218, 222. Hutton's book was reportedly published in 1790 in "Burlington," a name under which two American cities had by then been chartered. The city in New Jersey had already existed for many years, however, given that Franklin had printed the first colonial money there in 1726, while the community in Vermont would not actually be organized until 1797.

[99]Shipton and Mooney, s.v. "[Bailey, Francis, 1735?-1815 . . .]." and titles, 1, 3, and 4. Titles 1 and 4 appear within brackets.

[100]*A Companion for the Counting House;* and *Funk & Wagnalls,* s.v. "Almanac."

[101]Hill, quoting title page. The administrator's account is shown on p. 169, and the interest table (six per cent) is given and explained on pp. 191-92.

[102]*Debtor and Creditor;* and Mather.

[103]Biscoe; Fenning; Rivington, p. 45; Shipton and Mooney, s.v. "Fenning, Daniel," "[Fenning, Daniel]," "[Hayes, Richard, accountant . . .]"; and Yamey, Edey, and Thomson, p. 212.

[104]Lillo; and Shipton and Mooney, s.v. "Lillo, George, 1693-1739."

[105]Franks, 1786 (quoting p. 82), 1787; and Horner, pp. 452, 461. Horner's reference to the American Jewish Historical Society as a confirming source regarding Franks (p. 461) is the basis for conjecturing that the Dublin native may have been a Jew.

[106]Horner, p. 461. In response to a recent request, a staff person at the New York Historical Society was unable to locate further information on Franks, assuming that the Revolutionary War manuscript files held on "D. S. Franks" concerned instead the "notorious" other David Franks (Roff).

[107]Franks, 1786, p. 81. Special forms (italics and all-capitals) in original.

[108]Reigner, pp. 37, 39 (quoted).

[109]Franks, 1786, p. 80; Franks, 1787; Duncan, p. 45 (nonlisting of Franks); and Shipton and Mooney, s.v. "Franks, David, conveyancer."

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A number of research facilities have generously afforded access to rare books, special collections, microform resources, or general holdings. They include the central libraries at the Universities of Baltimore, Southern Mississippi, Chicago, Alabama, and Pennsylvania; and the Library Company of Philadelphia, the Free Library of Philadelphia, the Georgia and Maryland Historical Society and the Charleston Library Society. Special personal gratitude is expressed to Linda Kuriger, Microform Librarian at the University of Southern Mississippi; Gerry Watkins, coordinator of the University of Baltimore's Herwood Librard of Accountancy; Phil Lapsansky, Chief of Reference at the Library Co., and Charles Latham, Jr., former archivist at the Episcopal Academy in Mehion, Pa.

Reprint or microform editions were generally used, where cited. Original copies were used instead or as well, however, of works by Dilworth (1794), Hawkins, Mitchell, Sarjeant (1793), Richard Turner, and Workman (1793).

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FINANCIAL REPORTING FOR THE GEORGIA COLONY

Abstract: Stewardship reporting was an important tool in the establishment and development of the American Colonies. In 1732 the King of England created the Colony of Georgia as a haven for England's "worthy poor." A corporate trust was established to implement this purpose, and it was necessary for the trustees to account for the many private contributions to the cause as well as the grants from the crown. This article discusses the early history of the Georgia colony, presents a thumbnail sketch of Harman Verelst, the Trust's accountant, and illustrates by example the financial reporting he developed for the Georgia Colony.

King George II signed the charter for the new colony of Georgia on June 9, 1732, thereby creating a corporation unique in the history of the American colonies. It had been more than a hundred years since England had used a corporation as a colonizing device.[1] However, events, public sentiment, and the founders' objectives combined to make the choice effective and practical.

Three primary motives led to the establishment of the Georgia colony. The notion with which present-day Americans are probably most familiar is that Georgia was to serve as a haven for English debtors. Unfortunate debtors in English prisons were to be given a new chance in the colony. This idea proved very popular in England of 1732, for concern over prison reform was prevalent, and it was expensive to maintain the debtors in prison. James Oglethorpe, often honored as the "father" of Georgia, was a leading critic of prison abuses and advocate of reform. There is little doubt that these sentiments created great public support for the colony. However, research has shown that few if any debtors actually sailed to Georgia.[2] Instead, most of the early settlers given free passage to Georgia were either poor townsmen from England (not debtors) or European religious refugees who were carefully screened by the colony's trustees for their potential to prosper and contribute to the new colony's success.[3]

The second motive was to provide a defense buffer for England's existing colonies in America, particularly South Carolina. Both England and Carolina perceived threats to their security from the Spanish to the south, the French to the west, and the Indian allies of both enemies. Georgia was partially conceived as a colony of citizen-soldiers whose presence south of the Savannah River would enhance the security of South Carolina and its existing and profitable Indian trade.[4]

Third, the colony was desirable for the usual economic reasons associated with expanding the trade resources of the English Empire. For example, the Georgia climate was considered ideal for the production of silk, a much desired commodity in England but one not suited to the climate of the mother country.[5]

Thus the founding of the new colony had both charitable and pragmatic motivations, with the stated purposes of charity and defense being most apparent in the Charter. The colony's unusual nature was evidenced in many ways. For example, the charter guaranteed religious freedom to all but Catholics.[6] Both Negro slavery and the consumption of rum were prohibited by the colony's bylaws, since they were considered detrimental to the industry and perseverance of Georgia's new transplanted citizens.[7] Most unusual, however, was the organization of this hybrid entity.

The charter created a corporation: "The Trustees for Establishing the Colony of Georgia in America." Its life was to be 21 years, after which complete control of the colony reverted to the King. In the meantime, administrative power was vested in a 21 member Board of Trustees. The Trustees, many of whom were Lords or members of the House of Commons, essentially managed the operations of the colony. This included the duty to solicit and manage the private contributions which were expected to support the colony.[a] There was no separate legislative body. The trustees made all laws and ordinances and settled all but minor disputes among the colonists. Consistent with the philanthropic nature of the endeavor, the charter specifically forbade the Trustees from owning land in the colony or receiving any salary or income in any form from their efforts on behalf of the colony.[8] When one considers the length of time which many of the Trustees served and the effort they expended as documented in their minutes and journals, it is evident

[a]It proved impractical to support the colony entirely from donations; the colony eventually depended on annual appropriations from Parliament.

that their ideals of charity and service to the Empire were genuine. The charter also directed

> . . . that the said corporation every year lay an account in writing before the chancellor or speaker, or commissioners for the custody of the great seal of Great Britain, of us, our heirs and successors, the Chief Justice of the Court of King's Bench, the Master of Rolls, the Chief Baron of the Exchequer . . . of all moneys and effects by them received or expended for carrying on the good purposes aforesaid.[9]

To aid in raising money, the Trustees also promised contributors that all contributions would be recorded in a book maintained for the purpose, and that all important contributors would receive printed copies of the accounts.[10] The need for some form of financial reporting was inescapable. The resulting reports for 1732-33, the first year of the colony's existence, are reproduced in this paper.[11]

The reporting needs of the Georgia colony in 1732 were similar in many ways to those of today's nonprofit organizations, and focused on the stewardship of resources provided by others. Before examining the statements, however, it is interesting to first reflect on the role and responsibilities of professional accountants of that time, as reflected in the following thumbnail sketch of the life and services of Harman Verelst, the Trustees' accountant.

Harman Verelst

Harman Verelst served as accountant to the Trustees for the entire Trusteeship period, signing each of the corporation's reports from its inception in 1732 to its dissolution in 1752. Before his position with the Trustees he was described simply as "an extra man at the Customs House."[12] He left no published works other than the reports discussed herein; consequently his contribution to the Georgia colony has been largely overlooked. However, he filed a great many of the letters he received from the colonists, and many of his letters to the colonists have also been preserved. Some of these have been published in the *Colonial Records of the State of Georgia,* while others are available in the University of Georgia's collection of the Earl of Egmont's manuscripts (Egmont Papers). Many additional references to Verelst exist in the minutes of the Trustees' Common Council, the Journal of the Trustees, and particularly the diary and journals of the Earl of Egmont, first president of the Board of Trustees and one of the colony's most ardent supporters in England.[13] These sources suggest that Verelst played a significant and extensive role in establishing and administering the colony.

Verelst maintained a continuing correspondence with many of the colonists, especially those with financial and other responsibilities for administering the colony. For example, the need for internal control and receiving reports is evident in the following rather grim excerpts from Verelst's letter to Thomas Causton, the manager of the Trustees' supply store in Savannah:

> Several German Familys having indented themselves at Cowes as Servants to the Trustees, Captain Dunbar who went down on that occasion will inclose You the Indenture which they all Sign and a List of each Family and the Heads contained therein. These Familys are to be delivered at Tybee by the Ship Three Sisters. Captain Hewitt who will send You notice of his Arrival That you may go and receive them in such craft as is proper to bring them thence to Savannah. You are to call over the Familys by the List computing the Number of heads the whole amount to; and then you will find if they all arrive or if any shall have dyed at Sea. Those that Arrive and are delivered to You are the Heads the Trustees are to pay for, and You are to give the Captain a Receipt for the Number of Heads you receive.[14]

He maintained individual accounts for some of these men as a necessary part of his duties in preparing reports for the Trustees and the House of Commons. This was not always an easy task, as evidenced by the following excerpts from another of Verelst's letters to Thomas Causton, who had been accepting goods from independent merchants without authorization for the purchases:

> You see the Confusion created by your making Expences before You had Sola Bills to defray them, and thereby are now unprovided for; and you must regulate Your self to [authorized expenditures]. And the Trustees direct You not to Certify any Accot. for the future to any Person whatsoever, nor Contract any Expences but those you are ordered to make, & have Sola Bills to defray . . .[15]

("Sola bills" were financial instruments which promised payment for goods when presented to the Trustees in England. They are described more fully later.) Apparently the decentralization of the colony's management and the difficulty of communication caused Verelst some headaches in cash flow management as well as in preparing accurate financial statements.

However, the scope of Verelst's correspondence suggests that his duties included many matters not directly related to finance. Verelst found himself in the role of a principal intermediary between the colonists (especially Oglethorpe) and the Trustees.[16] The colonists had a great many complaints, such as the inequity they perceived in the prohibitions on rum and slaves, and generally would address their grievances to Verelst rather than the Trustees. Verelst would present the various problems for resolution at the Trustees' meetings, at which he was usually present. Thus he provided an important communication link between the colonists and the Trustees.

It probably would be fair to attribute altruistic motives to Verelst's service, for he volunteered to work for the Trustees without salary until the corporation could afford to pay him.[17] He even made nominal contributions of personal effects to the colony, donating a Bible and a book of homilies to the cause, as recorded in his first report.[18]

Though they could not at first afford a regular salary, the Trustees deemed his services so valuable that they bestowed occasional monetary rewards for his services, ranging from 25 to 200 pounds. After 1736, the accountant received a yearly allowance of 150 pounds, or about one percent of all the colony's expenditures for that period.[19] For comparison, Gilboy gives the median daily wage of London skilled laborers in 1736 as about two shillings,[20] or about 31 pounds annually for a six day work week. While this would be a poverty level wage at that time, it appears that professional accountants were paid far above the rates for manual workers in the eighteenth century.

Verelst was versatile in his service to the Trustees. For example, when Oglethorpe brought several Indian chiefs to England in 1734, it was Verelst who managed all the arrangements for the visit. He apparently did it so competently that the Council awarded him fifty extra guineas for his efforts.[21] He was appointed to help with the purchase of presents for the Indians in the colonies,[22] and each year was authorized to collect Parliament's appropriation for the colony from the exchequer and deposit it In the Bank of England.[23] It was Verelst who managed the logistics of provisioning the ships which carried the new settlers to Georgia.[24] In sum, Harman

Verelst was a trusted, versatile, and indispensable aide to the Trustees, and his contributions to the colony should not be overlooked.

Like many accountants today, Verelst did not restrict his services to one employer. Among others, he also worked for the Duke of Newcastle, who retained him to collect evidence to aid England in its boundary dispute with Spain over title to Carolina.[25] In 1739 he served as the secretary to the Corporation of Foundlings.[26]

The Statements

The reports prepared by Verelst took the form of charge and discharge statements, a format which was in common use by contractors with the British government at that time.[b] The primary statement was the *General Abstract,* which summarized the funds for which the corporation was responsible (charges), the uses to which they were put (applications and expenditures), and the balance available at the end of the period. Exhibit 1 shows the general abstract for the year 1732-1733, the colony's first year. As is evident in the statement, receipts exceeded disbursements substantially, leaving an "unapplied" cash balance of £1468.

It is apparent that Verelst used a form of fund accounting. Exhibit 1 identifies four separate funds:

1. particularly to the Swiss and Palatines,
2. for Establishing the Colony,
3. for the Religious Use of the Colony, and
4. for encouraging and improving Botany and Agriculture in Georgia.

The fund for Establishing the Colony was apparently in the nature of an unrestricted fund, though a few of the contributions were to be used for specific purposes. The three other funds were clearly restricted in nature and would correspond to the current restricted funds of modern nonprofit organizations. For the first two years these four fund classifications were used exclusively in accounting for all receipts, disbursements, and unexpended balances. In later years more funds were added as the colony's operations became more complex (see Exhibit 5, described later).

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[b]For additional background on the use of the charge and discharge statement see William T. Baxter, "The Account Charge and Discharge Statement," and William Holmes, in "Governmental Accounting in Colonial Massachusetts."

EXHIBIT 1

THE GENERAL ABSTRACT

CHARGE	TOTAL £	TOTAL s	TOTAL d	DISCHARGE	Monies applied, and expended £	s	d	Monies remaining unapplied £	s	d	TOTAL £	s	d
Monies received to be applied particularly to the Swiss and Palatines	16	16	-	Monies applied particularly to the Swiss and Palatines	16	16	-	-	-	-	16	16	-
Monies received to be applied for Establishing the Colony	3,426	8	11	Monies expended for Establishing the Colony	2,160	19	9	1,265	9	2	3,426	8	11
Monies received to be applied for the Religious Uses of the Colony	164	18	8	Monies expended for the Religious Use of the Colony	2	2	-	162	16	8	164	18	8
Monies received to be applied for encouraging and improving Botany and Agriculture in Georgia ..	115	10	-	Monies expended for encouraging and improving Botany and Agriculture in Georgia	75	-	-	40	10	-	115	10	-
L	3,723	13	7	L	2,254	17	9	1,468	15	10	3,723	13	7

Georgia Trustees Office, Court Westminster } Harman Verelst Accountant 13 June 1733

The general abstract was supported by two schedules. Exhibit 2 reproduces the first page of the first, entitled "Monies Received from the Several Persons Hereafter Named for the Following Purposes: That is to Say." This is a listing of the sources of all the receipts and their intended use, with subtotals for each fund. "Charges" (revenues) were reported by name of the donor, often

EXHIBIT 2

MONIES RECEIVED FROM THE SEVERAL PERSONS HEREAFTER NAMED FOR THE FOLLOWING PURPOSES; THAT IS TO SAY

1732		£	s	d
	To be applied particularly to the Swiss and Palatines viz: from			
20 July	George Heathcote Esqr;, for relief of the Swiss sick and Child bearing Women, and likely to be brought to Bed in Passage to Purisburg	5	-	-
	William Belitha Esq; for the same use	18	13	-
31 Aug.	The Right Honourable George Lord Carpenter for the German, Swiss and Palatines then going for Carolina	1	1	-
	James Vernon Esk; for the same use	1	1	-
	James Oglethorpe Esq; for the same use	1	1	-
	£	26	16	-
	To be applied for establishing the			
1732	Colony. vizt: from			
	The Associate Petitioners for incorporating the Trustees, remaining unapplied at the Date of his Majesty's Royal Charter	159	13	5
22 June	Mrs. Elwes Wife of Robert Elwes Esq; by the hands of Mr. Hales	50	-	-
23 Aug.	Dr. Thomas Cranmer of Kingston in Surry, by the Hands of Mr. Belitha	1	1	-
	An unknown Benefactor, by the Hands of Mr. Belitha	5	5	-
25 Ditto	Mrs. Anne Coghill by the hands of Mr. Hucks	5	5	-
	Peter Abraham Mazeres Esq; by the same Hands	5	5	-
29 Ditto	S. John Barnard	21	-	-
5 Sept.	The Right Hohourable James Earl of Abercorn, then an unknown Benefactor by the Hands of Mr. George Jackson	100	-	-
8 Ditto	Contributors to the Collection made by Sr. Gilbert Heathcote under the Commission granted to him by the Trustees vizt. £ s d			
	Sir Gilbert Heathcote 21 - -			
	The Honble Horatio Townsend Esq; 21 - -			
	Carried over £42 - -	347	9	5

indicating that the funds came "by the hand" of another person. (A surprisingly large proportion of the colony's benefactors preferred to remain anonymous.) An examination of the entire schedule would reveal that the largest single receipt was £500 from the Right Honorable Sir Joseph Jekyll. In later years, the majority of funds came from appropriations by Parliament rather than private individuals.

Exhibit 3 is the first page of the second supporting schedule, entitled "Monies Applied and Expended for Carrying on the Several Good Purposes Hereafter Mentioned, in the Respective Services attending to Each Purpose, That is to Say." The largest expenditure of £628 was for the "Freight and Charges of Shipping the said 152 Persons, and their Baggage, together with the other Lading for the Use of the Colony." These 152 people comprised the first group of "worthy poor" to settle in Georgia. They arrived in the sloop *Anne*, and landed at Yamacraw Bluff in February 1733 to establish the settlement of Savannah.

It is evident that the expenditures were reported in great detail On the one hand, the descriptions were of things purchased, e.g., "for charges of a Seal, of Stationary Ware, etc.," and would correspond to present-day objects of expenditures. On the other hand the description was often of the purpose of the expenditure, e.g., "for charges of sending 152 persons to Settle in Georgia," "to enable . . . to proceed on his voyages to collect plants, etc."

EXHIBIT 3

MONIES APPLIED AND EXPENDED FOR CARRYING ON THE SEVERAL GOOD PURPOSES HEREINAFTER MENTIONED, IN THE RESPECTIVE SERVICES ATTENDING EACH PURPOSE, THAT IS TO SAY

	Applied particularly to the Swiss and Palatines. viz. to			
1732		£	s	d
20 July	Mr. Purry and the Elders of the Swiss Congregation, for Relief of the Swiss Sick and Child bearing Women, likely to be brought to bed in their Passage to Purrisburgh	13	13	-
31 Aug.	Jacob Vinckler, and the Six other families of German, Swiss and Palatines, to buy Tools and for their Subsistence, until they went on Shipboard for Carolina	3	3	-
	£	16	16	-

Expended for Establishing the Colony. viz:				£	s	d
For Charges of a Seal for the Corporation, a Conveyance, Grants of Land made by the Trustees, and Commissions to collect Benefactions				42	6	10¼
For Charges of Stationary Ware, printing several Books and Accounts, of the Designs of the Trustees, and publishing Articles and Advertisements in the Publick News Papers				133	9	10
For Charges of sending 152 Persons to settle in Georgia, viz: 60 Men, 39 Women, 32 Boys and 21 Girls. viz:						
For Stores, working Tools, and Necessaries provided by the Trustees, for the Use of the Colony and Passage to Georgia	502	11	7			
For Provisions for three months after their arrival in Georgia and until they could be had in Carolina and for Refreshments in the Passage	158	7	7			
For Arms and Ammunition for the Use of the Colony	73	19	-			
For Watch Coats and Bedding to those Passengers for Georgia that wanted them	50	8	6			
For Freight and Charges of Shipping of the said 152 Persons, and their Baggage, together with the other Lading for the Use of the Colony	628	17	9			
				1,414	4	5
For Charges of the Silk People from Piedmont and for necessary Materials for Production of Raw Silk in Georgia				149	5	9
For House Rent for the Trustees Office, and Necessaries for the house, and Petty incidents				50	9	10¼
Carried forward £				1,789	16	8½

An examination of the monies received and expended in Exhibits 2 and 3 demonstrates a strict adherence to and respect for individual preferences underlying the donors' gifts. Many of the contributions were restricted narrowly. For example, monies were received towards building a church, for the use of people in their passage to Georgia, for the relief of the necessitous women and children during passage, and for the three restricted funds. The report of monies expended carefully indicates the purpose of the disbursements as well as the objects procured.

Not all the colony's benefactors made their contributions in cash. Many contributions were in the form of supplies and other items to be taken to Georgia with the new settlers. Such gifts in kind are not included in the general abstract. However, Verelst took pains to report even the smallest gifts. Exhibit 4 is a listing of in-kind contributions entitled "Effects Received from the Several Persons Herein Mentioned, and Applied by the Trustees, Viz." Listed in the exhibit are gifts of maps, globes, and tables. In addition, the complete schedule mentions gifts of Bibles, Common Prayer Books, Psalters, other religious books, nails, tools, powder flasks, bayonets, medicines, spelling books, clothes, and two hundred copies of the booklet, "Friendly Admonition to Drinkers of Brandy."[27] Thus, readers of the statements were provided a com-

EXHIBIT 4

EFFECTS RECEIVED FROM THE SEVERAL PERSONS HEREIN MENTIONED, AND APPLIED BY THE TRUSTEES, VIZ.

	Names of Contributors	Effects contributed
1732 July	James Oglethorpe Esq; for the Use of the Trustees Office	Two dozen of matted Chairs A Map of the World A Map of England and Wales Two Sheets of Arms or common Seals of Cities and Boroughs in England & Wales Two Maps of North America A Map of South America A Map of the improv'd part of Pensilvania in America Two Globes mounted on Frames with Covers
	The Reverend Mr. Stephen Hales for the same Use	A Map of the Province of Carolina
Aug.	James Oglethorpe Esq; for the same Use	An African Mahogany large Table
	The Right Honourable John Lord Viscount Tyrconnel for the same Use	A North Carolina Carpet, for the said Table

EXHIBIT 5

THE GENERAL ABSTRACT

CHARGE							DISCHARGE					
Depending on several Persons in America the 9th of June 1737	Monies remaining in the Bank of England the 9th of June 1737		Monies received in America and taken from the Accompts thereof which came to England within the Time of this Accompt	Monies received in England within the time of this Accompt.	TOTAL	THE SEVERAL PURPOSES FOR WHICH MONIES HAVE BEEN RECEIVED, AND APPLIED AND EXPENDED.	Monies applied and expended in England within the Time of this Accompt	Monies applied and expended in America and taken from the Accompts thereof which came to England within the Time of this Accompt	Depending on several Persons in America the 9th of June 1738	Monies remaining in the Bank of England at the end of this Year's Accompt		TOTAL
	To answer Sola Bills of Exchange sent to Georgia and issuable there for the Service of the Colony	Balance to be applied								To answer Sola Bills of Exchange issued in Georgia for the Service of the Colony	Balance remaining to be applied	
£ s d	£ s d	£ s d	£ s d	£ s d	£ s d		£ s d	£ s d	£ s d	£ s d	£ s d	£ s d
9,133 8 9½	1,333 - -	921 12 -	260 - 10	20,132 18 8½	31,781 - 4	For establishing the Colony	6,466 5 11¾	13,473 10 1¾	8,976 11 3½	1,951 - -	913 12 11	31,781 4
— - -	— - -	112 - -	— - -	10 10 -	122 10 -	For the use of particular Persons	22 10 -	— - -	— - -	— - -	100 - -	122 10
						For the following Religious Uses of the Colony, viz^t.						
— - -	— - -	371 19 9	—	320 10 -	692 9 9	The Building of Churches	117 14 9	— - -	— - -	— - -	574 15 -	692 9 9
— - -	— - -	328 15 11¼	— - -	69 7 -	398 2 11¼	The use of the Missionaries and Schools for instructing and converting to Christianity the Native Indians	124 17 3	36 13 10	— - -	— - -	236 11 10¼	398 2 11¼
— - -	— - -	41 15 6	— - -	— - -	41 15 6	The Use of the Minister to the Scot's Settlement in Georgia	— - -	41 15 6	— - -	— - -	— - -	41 15 6
— - -	— - -	408 17 4¾	— - -	10 - -	418 7 4¾	And for the Religious uses of the Colony in general such as the buying of Books, the cultivating Lands to raise a Provision for the Maintenance of a Minister and the Appropriation towards the Maintenance of a Catechist	— - -	15 10 -	— - -	— - -	403 7 4¾	418 17 4¾
— - -	— - -	1 13 4	— - -	106 13 4	108 6 8	For encouraging and improving Botany and Agriculture in Georgia	61 13 4	— - -	— - -	— - -	46 13 4	108 6 8
9,133 8 9½	1,333 - -	2,186 13 11	260 - 10	20,649 19 -½	33,563 2 7	TOTALS	6,793 1 3¾	13,567 9 5¾	8,976 11 3½	1,951 - -	2,275 - 6	33,563 2 7

NOTE: That £171: 5: 7 of the above Sum of £913 : 12: 11 is appropriated towards building a Church in Georgia.

GEORGIA TRUSTEES OFFICE
Palace Court Westminster

HARMAN VERELST Acco^{tant}
6. December 1738.

173, 174

plete summary of all resources available to the Trustees for the settlement of Georgia.

The statement format presented in the first four exhibits remained essentially the same throughout Georgia's Trusteeship period. However, as the colony's operations became more complex the general abstract also evolved to a more complex form. As an example, the general abstract for the year ended June 9, 1738 is presented in Exhibit 5.[28] Several additional funds have been established, and receipts and expenditures have been geographically dichotimized according to whether the transactions occurred in England or Georgia. In an interesting reflection of today's standards, Verelst added a footnote warning that certain funds were restricted for the building of churches.

Disclosure of a further restriction on the general funds was necessary because of the Trustees' use of "sola bills." After the Trustees had approved necessary levels of expenditures in the colony, sola bills for that amount were printed and sent to those colonists in Georgia authorized to make the expenditures (e.g., the Trustees' storekeeper). Since the bills could be presented in England for immediate payment, they took on many of the characteristics of money in the colony. In the later years of the Trusteeship period the Trustees refused to pay any claims arising in the colonies unless they were accompanied by the required sola bills. Thus the Trustees were able to use the bills as a means of enforcing their cash budget. As the statements indicate, it was necessary to restrict funds in the Bank of England until these "outstanding checks" returned across the Atlantic and were presented for redemption.

Amounts "Depending on Several Persons in America . . ." represent funds advanced to colonists, usually administrators such as Oglethorpe, the use of which had not yet been reported. Timely communication of transactions was of course a problem because of the time needed for correspondence to cross the Atlantic. Separate disclosure was appropriate because the funds may already have been spent.

The Trustees' financial statements certainly differed from statements which might be prepared under today's standards. For example, the statements reflected only cash and in-kind receipts and cash disbursements. They did not disclose any receivables or promises to contribute. Liabilities, either long or short term, were also omitted,[c] as were long term assets, either purchased or con-

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[c]The Trustees scrupulously avoided debt. Nevertheless, they frequently found themselves paying for goods delivered in the colonies by independent merchants

structed (for example, the churches). Nevertheless, they appeared to serve the Trustees' purposes well. As a form of stewardship reporting, these statements might be considered as predecessors to present-day governmental and nonprofit accounting. The Trustees certainly had similar objectives in preparing them, as they were accountable to both the British government and private contributors.

Summary and Conclusions

This paper examined the first charge and discharge statements of colonial Georgia as one example of financial reporting used to help establish the Colonies in America. It is immediately apparent that a serious and conscientious effort was made to account for all the monies and goods received for the support of the people who were to settle in the new colony.

The Trustees were accountable, or held a public trust, for the funds and other items made available for the settlement of Georgia. Due to the plight of the debtors and other poor, many individuals and (later) Parliament were moved to contribute generously toward their support and emigration to America. These individuals were entitled to an accounting of their contributions. Harman Verelst met this reporting need well by providing a detailed and clear stewardship report.

FOOTNOTES

[1]McCain, p. 17.

[2]Saye, p. v.

[3]Many accounts of the Trustees' interviews with potential colonists may be found in the Diary of the Earl of Egmont (Historical Manuscripts Commission), volume 1.

[4]Charter of the Colony, p. 11-12.

[5]See Saye, Chapter 1, for an extensive analysis of the motives underlying the Georgia colony's establishment.

[6]Charter of the Colony, p. 21.

[7]Bylaws and Laws, pp. 45, 51.

[8]Charter of the Colony, p. 16.

[9]Charter of the Colony, p. 17.

[10]Reese, T., (1963), p. 29.

[11]Contributions and Names of Contributors, pp. 7-24.

[12]Historical Manuscript Commission, vol. 1, Aug. 3, 1732, p. 289.

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who accepted the assertions of the colony's Georgia based officials that the Trust would pay in England (e.g., see the previous quote). This proved to be a continuing cash control problem to the Trustees, who eventually absolutely forbade ordering or accepting any goods not specifically ordered or approved by themselves.

[13]Coleman, p. 18.
[14]Verelst, 17 Sept. 1738, p. 45.
[15]Verelst, 17 Feb. 1737-8, p. 80.
[16]Reese, 1955, p. 352.
[17]Historical Manuscript Commission, vol. 1, p. 289.
[18]Contributions and Names of Contributors, p. 23.
[19]Candler, vol. 2, p. 180; Candler, vol. 3, p. 149-150.
[20]Gilboy, p. 11.
[21]Candler, vol. 2, p. 78.
[22]Candler, Vol. 1, p. 519.
[23]See for example Historical Manuscripts Commission, Egmont diary, vol. 2, p. 130, 144.
[24]Candler, Vol. 1, p. 127, 470, 474.
[25]Reese, p. 351.
[26]Historical Manuscripts Commission, v. 3, p. 26.
[27]Candler, vol. 3, pp. 20-24.
[28]Candler, vol. 3, pp. 173-74.

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THE HISTORY OF ADVERTISING BY ACCOUNTANTS

The accounting profession has changed to meet the requirements of business, government and other economic influences. In particular, standards of practice and principles to guide the selection of choices have been developed, modified, restated and fine-tuned over the past 70 to 80 years in response to the needs of an expanding American economy.

The common body of knowledge of accountants also has changed. The attest function grew in pre-eminence because shareholders and others wanted and needed accountability. The Internal Revenue Code demanded tax experts. Complex business and government operations and organizations came to need expertise in a wide variety of services, from systems design and installation to advice on other internal functions, sometimes called "management advisory services."

A framework of ethics was adopted (and amended) governing the attitudes and conduct of accountants in the course of their engagements. Independence and the strict adherence to standards and principles were considered as the foundations of ethics; ethics and a common body of knowledge, were the foundations of a profession.

Accountants wanted to be a profession, and advertising was believed to be unethical. This belief has also changed, and accountants have come full circle in the matter of advertising. Historians may be prompted to recall that history does, after all, repeat itself, or perhaps to quote from the Book of Ecclesiastes ". . .there is not a new thing under the sun." The intention of this paper is to trace the history of advertising by accountants in order to answer the question: have accountants changed their philosophy about advertising in order to meet a change in the environment in which accounting functions? A possible side issue is the effect of advertising (in this case, nonadvertising) on the making of a profession. The principal focus is on the United States, with some reference to concurrent developments in England and Canada.

Early Experience With Advertising

The first restriction on advertising by accountants in the U.S.A. was adopted by the American Association of Public Accountants (forerunner of the American Institute of Accountants) in 1894, when its council resolved that ". . .all members (of the AAPA) be prohibited from advertising their vocations, but, insertion of a card in journals giving profession and address is permissible".[1] The AAPA had little prestige or power, and the rule lacked an effective enforcement vehicle; it was largely ignored.

Previously, in the late nineteenth century, Webster noted that accountants advertised, and described a circular referring to planning and remodeling books for business firms, preparation and adjustment of partnership accounts, and periodic auditing and verification of statements.[2]

During the same period, British accountants were wrestling with the issue of advertising. In 1881 the Institute of Chartered Accountants in England began a movement to eliminate accountants "touting" for business, although as Montgomery notes, it was nearly twenty years before the practice died out.[3] By 1907 the Institute prohibited any use of initials affixed to the accountant's name in advertised announcements, which was not ". . .authorized by statutory enactment of this country or by well-known associations established for a similar purpose in the British Empire."[4]

The *London Accountant* in 1909 editorially supported the council of the Institute of Chartered Accountants for having ousted a member-practitioner who was a director of an organization which advertised itself to be available to undertake the business of a professional accountant. "It is high time that no further indulgence should be given to those who apparently wish to hunt with both hare and hounds", the editorial concluded.[5]

Two years later, *The Accountant* (London) published a letter from an outraged chartered accountant who criticized that journal for printing advertisements of "coaching" classes taught by other chartered accountants. The writer found no difference between advertising for business and advertising as a teacher of accounting. *The Accountant* responded by rationalizing its actions on the grounds that advertising "coaching" was not unlike advertising a book written by an accountant. Even the medical profession placed no restriction on advertising for a book by a physician. Further, the prohibition on advertising was not to prevent an accountant from gaining a share of the available work, but rather because advertising lowered the dignity of the profession as a whole.[6]

The Journal of Accountancy Responds

Meanwhile, in America, accountants were advertising unfettered by any prohibition. *The Journal of Accountancy* was motivated to publicize what it considered ". . .particularly offensive . . ." advertisements.

A letter from an accountant seeking employment from a large business firm described himself (the accountant) as an expert in the field of accounts and production costs. In fact, the accountant continued, "I have yet to be pronounced or to find myself second in point of ability to any man engaged in this work."[7]

An audit firm responded to a help wanted advertisement placed by a commercial firm seeking a clerk. The auditors offered to "check the books" before the new bookkeeper commenced his duties.

A New York accounting firm with a Canadian office sent the following card of solicitation to a Canadian business in 1915 (one may assume "The Bull" to be John Bull; "underpaid alien assistants" probably refers to junior accountants in the New York office; the reader may draw his or her conclusions as to the meaning of the rest):

> "We neither worship The Bull (a he cow), nor follow him, nor throw him. We simply can him.
>
> "Consistently we say with plain directness, and uttering no boast, that you could advantageously use our recognized front rank ability as accountants and appraisers in the matter of
>
> "An Efficient Operating and Cost System.
>
> "We shall be glad to confer with you by appointment relative to our service in this matter.
>
> "________________ & ________________
>
> Public Accountants General
>
> "________ ______________ ________________ Brooklyn, N.Y.
>
> "Our service is by principles only, not by underpaid alien assistants."[8]

Advertisements appeared rather frequently. The following was printed in the *New York Times* on March 19, 1915.

AUDIT-ACCOUNTING SERVICE

Available for probate, adjustments, investors and
general business interest. Exactness and quality
of service attested to by large firms and corporations.

FEES MODERATE

__________ ___________________ Company (name)
Phone ______ ________ ________________, N.Y.
(telephone number and street address)

One accounting firm, The Accurate Audit Company, seemed intent on reminding the public of the approaching deadline for filing tax returns. On March 18, 1918, the following 2½″ by 2¾″ ad appeared:

Income and Excess
Tax Experts
Supervised by

________ ________ ____________, C.P.A.
Certified Public Accountant

__________ __________ __________

Formerly U.S. Deputy Collector
of Internal Revenue

Our service insures pleasing results
and often SAVES IN ACTUAL CASH many
times its moderate cost.

There are ONLY 9 MORE DAYS TO FILE
RETURNS, during which our offices will
remain open until 9 p.m.

We invite consultation at your or our
offices after telephone appointment.

ACCURATE AUDIT COMPANY

____________ _______ _________________

(address and telephone no.)

On March 20, 1918, Accurate Audit Company sponsored another box advertisement. This one, 7″ by 3″ had essentially the same message, except that there were now "ONLY 6 MORE DAYS TO FILE RETURNS."

Finally, *The Journal* referred to advertisements spotted in newspapers written in language suggesting the superior ability of the advertiser-accountant. An editorial judged that the accountants were on the wrong track, anyway, even if accountancy was viewed as a trade, for no businessman was going to retain an accounting firm because of claims of the value of its services or the expertise of its assistants. "In our opinion. . .", *The Journal* continued, ". . .no business that is worthwhile can be got in that way." Advertising, *The Journal* concluded, should be both dignified and enlightening. That kind would increase receipts while not hurting the status of the profession.[9]

The Journal did not flag in its role as chief critic of advertising. Advertisers of accounting services were described as "undesirable elements",[10] "simply disgusting",[11] or one who ". . . helps the public to a just apprehension of his merits;"[12] however, to its credit, *The Journal* printed both sides of the argument. The August, 1914, issue carried two articles by CPAs, both of whom wrote in support of the proposition that advertising by accountants was proper. Gore's rationale was that advertising was necessary to make one's ". . .ribs less visible when one bathes."[13] The ". . .heroes. . . whose statues will never adorn a hall of fame, who steadfastly adhere to what they conceive to be ethical and wait day after day for the client who is to be attracted by their dignified attitude . . . are distressing . . .and are usually relieved by the ethical party's being taken over and added to the staff of more prosperous brother practitioners."[14] "Viewing things from that position," he concluded, "one must concede that advertising has nothing about it of which to be ashamed."[15]

Shorrock was somewhat similarly inclined, believing that

> ". . .this, at least, is true, viz: That we shall never realize what we believe to be our possibilities of usefulness to the public or profit to ourselves if we permit ourselves to be bound by any rule which compels the public to seek us and does not permit us to seek the public."[16]

But *The Journal* had the last word. In 1919, it printed an editorial by the chairman of the professional ethics committee of the American Institute of Accountants. The editorial followed, by a year, a recommendation by the ethics committee for the establishment of a standing committee with power to censor advertising by AIA

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members. The chairman's eloquent views were said to reflect the majority of AIA membership:

> "The specious arguments which are made in favor of advertising and publicity campaigns are sometimes presented in such alluring form as to silence, if not convince, those who know in their hearts that no calling or vocation can consistently aspire to a professional status and dignity while it countenances unprofessional and undignified conduct. Oil and water will not mix — you cannot wed science to charlatanry without producing a sterile hybrid, and you cannot lay claim to membership in a profession while engaging in unprofessional practices. The things are incompatible — they cannot be reconciled, no matter how ingenious and eloquent the argument."[17]

Subsequently that same year, the council of the AIA added Rule 9 to the rules of conduct. "For a period not exceeding two years after notice by the committee on ethics publicity, no member or associate shall be permitted to distribute circulars or other instruments of publicity without the consent and approval of said committee."[18]

The AIA Bans Advertising

Rule 9 did not work. In 1920 the ethics committee warned that, short of a marked improvement in the form and content of members' advertising, the committee would recommend a rule prohibiting advertising. The committee did recommend such a rule, and the next year the council of the AIA adopted a resolution banning all but the circulation of ordinary business cards. This resolution in 1922 became Rule 10, prohibiting advertising by a member through the mail, in public print, or by any other written word. Excluded was a card which could indicate only name, title and address, without further qualifying words. The size of the card was specified.

Interestingly, in the *New York Times* of March 21, 1922, on page 10, the following advertisement by a still well known firm appeared in a 6″ x 2½″ "card."

Certified
Balance Sheets Reveal to Interested Executives
a business as it really is, not as they imagined
it might be.

(LOGO)

__________ & __________ (firm name)
Certified Public Accountants

____ _______ __________ (street address)
New York

_____ ________
_____ ________ (other city locations)

John L. Carey reports that following the adoption of Rule 10, A. C. Ernst and two of his partners resigned their membership in the Institute after having been called before a trial board appointed to investigate claims of violations of rules against solicitation and advertising.[19] A. C. Ernst never returned to membership, although his partners did, thirteen years later.

Nor did Rule 10 end either the raging controversy over advertising or acts of advertising by accountants. The council of the American Institute of Accountants, sitting as a trial board, was active hearing advertising violations cases, with ". . .comparatively few acquittals."[20]

Advertising and the Courts — 1930

Of particular note in the period subsequent to the adoption of Rule 10 was a ruling by the California Supreme Court on June 30, 1930. While this case involved advertising by an attorney, the court's findings were essential support for the anti-advertising stance of the AIA, and especially for Rule 10. California attorneys were precluded from advertising by the rules of the California Bar, and the court found that a rule of professional conduct prohibiting advertising was not an unreasonable rule:

> Notwithstanding the declaration of the petitioner, we do not believe that the profession of law is, or ought to be, merely "a highly competitive business." And because it is not and because it is necessary that the public should not be given the idea that it is so considered by the members of the profession, the rule against the solicita-

> tion of business by advertisement is a reasonable regulation.[21]

This and other similar rulings of the time, were reversed by the United States Supreme Court nearly 50 years later.

Rule 10 was re-written in 1941, perhaps in clarification:

> Members or associates shall not advertise their professional attainments or services, but publication of what is known as a card is not prohibited by this rule. A card is defined as an advertisement of the name, title (member of the American Institute of Accountants, CPA, or other designation), class of service, and address of the advertiser, or an announcement of a change of address or personnel of firms, not exceeding two columns in width and three inches in depth. . .[22]

The institute continued to draw the advertising line tighter. In 1947 the "card" was limited to publication only in event of a firm name change or a change in firm location. At the same time, directory advertising was restricted in content and style.

The End of the First Era of Advertising

By 1958, the first era of advertising ended when the American Institute banned all advertising, including "cards". The Institute had ensured that accounting was safely on its way to becoming a respected profession.

Whatever the feelings of individual practitioners at the time, it seems clear that not only did the Institute prevail, but it was in the right. If the appearance of dignity and professionalism is important in the public eye, as was the view of the California court in 1930, to create a profession on a par with law or medicine, there must be restrictions on advertising. But how important is this factor? Other events may have turned accounting into profession in spite of a ban on advertising. For example, the Securities Act of 1933, the Securities Exchange Act of 1934, and the Public Utility Holding Company Act of 1935, together with requirements that filed financial statements be certified, impacted with force on the role and scope of accounting practice and accountants' responsibilities. To these pieces of legislation we may add the Internal Revenue Code of 1939, and the Investment Company Act of 1940.

The Second Era of Advertising

The second era of advertising by accountants began with the case of *Bates v. The State Bar of Arizona,* 97 S.Ct. 2691, in which two Arizona attorneys were successful in having the Arizona Bar Association's restrictions on advertising ruled unconstitutional as violating the First Amendment to the United States Constitution, in rejection of the 1930 California Supreme Court ruling. The AICPA reacted, after polling its membership, by amending Rule 502 of the Code of Professional Ethics in 1978 allowing advertising which is not ". . .false, misleading or deceptive."[23]

Not unexpectedly, advertisements began to appear everywhere. Many national accounting firms bought full page advertisements in such magazines as *Time* and *Fortune* and half pages in the *Wall Street Journal.* A local newspaper carried the following advertisement in a large 6″ by 6″ box:

> This year let a CPA do your tax return.
> $6.00 per page. (We also do write-ups,
> audits, management services, etc.)
>
> __________, __________, __________, CPAs
>
> ________________________ (address)
>
> ________________ (phone number)

It was observed that, in the same advertisement the following year, the price went up to $8.00 per page. More recently it was $10.00 per page.

Another firm chose a different approach, in an advertisement that appeared as follows:

> When we handle business people, we know how to talk to business people.
>
> (pictures of three distinguished men, one bespectacled)
>
> We also know how to handle and talk about corporate taxes; real estate; business and finance (etc. and etc.) And, indeed, we provide timely preparation of financial statements and tax returns. If you would like to talk with us, phone us.
>
> Certified Public Accountants

We know how.

______________________ (firm name)
______________________ (address and telephone number)

The Competitive Environment of the 1970s and 1980s

Whatever brought advertising back to public accounting, its justification does not seem to be substantially different from that of Gore and Shorrock, some 70 years ago. Accountants (through advertising) can deal with competition from banks, attorneys and others.[24] ". . .The financial supermarket is on the way. . . . The banks are now learning about merchandising and within the next three to five years they will have financial services well packaged. When that day comes the U. S. accountant is going to need all the marketing skills he can muster. . ." else, banks could ". . .cut off the whole bottom level of accounting services."[25] (And make one's ribs more visible when one bathes?).

Chartered accountants in England and Canada who had restrictions on advertising similar to those in the United States, began a reassessment. The Canadians acted first.

Provincial Institutes in Canada in 1974 were called upon to ". . .review their policies on publicity to see whether some easing of their advertising restrictions might be appropriate and, indeed, welcomed by practicing members."[26] They did ease the restrictions. An advertisement in the March, 1982 issue of *CA Magazine* appeared in a 5″ by 2″ box as follows:

__________, __________ & Co. (Firm name)
Chartered Accountants

(picture of a smiling CA)

__________ __________ FCA, ACIS (name)

At the recent general meeting of the Partners of ________, ________ & Co., Mr. ________ ________ FCA, ACIS was elected Chairman of the Firm's executive committee. ________, ________ & Co. provides professional services in accounting, auditing, income tax and related financial and business matters, and computer services in systems and software design and processing.

The firm has offices in ________, ________, ________ (etc.)

At about the same time, the Institute of Chartered Accountants in England and Wales was restating its ethics code. The code generally provided that members not advertise professional skills or services. Announcements were allowed (restricted in form and content) for office openings, changes in membership, office removals and appointment of new members. District Societies (similar to U. S. State Societies) were permitted advertisements to inform the public of the services available from Chartered Accountants generally. Firm names in the district may be listed, but no indication of specific services by individual firm was allowed.[27]

But debate opened up, according to the title of an August, 1983, article in *The Accountant.*[28] There were ". . .hard commercial realities. . ." and ". . .the accountant's traditional preserve is being invaded by outsiders. . . ." Accountants should not have to ". . .fight with one hand tied behind their backs."[29] (Visible ribs again?) All this is not to mention pressure exerted by the Office of Fair Trading, comparable with the U. S. Federal Trade Commission.[30] The Institute was "moving steadily toward liberalization of professional publicity and advertising."[31] While English accountants presently lag behind their Canadian and United States counterparts, it may be surmised that they will soon catch up.

In the second part of the same article, Gail Counsell reported on the first TV advertisement "on the other side of the Great Pond." Early in 1983, Alexander Grant:

> ". . .Ran the first television campaign by an accountancy firm (though limited to the Chicago area). Two puppets, BJ and Larry, middle-aged businessmen, discuss BJ's financial worries in a restaurant. Larry: 'What's eatin' you, BJ? BJ (gloomily): 'It's my accounting, Larry, its driving me up the wall.'
> BJ, it transpires, gets to sleep at night by 'counting mistakes.' 'Go to see my guys at Alexander Grant. Smart partners. Problem solvers. . ."[32]

The punch line, as reported, was ". . .at Alexander Grant, you can take their service for granted."[33]

In 1926, not long after Ernst resigned his membership in the AIA, four years after Rule 10 forbade all but "cards" while *The Journal of Accountancy,* editorially, was still attempting to clean away the mess, it made a rather hopeful prediction regarding advertising by CPAs: "The next generation of accountants will probably be unanimous in acceptance of the dictates which are so often the subject of argument and bitterness today."[34] Two generations later it appears that *The Journal* erred. We are essentially where we were sixty years ago.

Conclusion

The question posed at the outset of this paper can now be answered. Have accountants changed their philosophy about advertising? The answer is, yes. Between the 1930's and the late 1970's, accountants were virtually unchallenged in their roles as auditors, tax consultants, and bookkeepers. Federal laws passed in 1933, 1934 and 1940 required financial statement certification by public accountants. The 1939 Internal Revenue Code was a complex law to which accountants rightfully responded with vigor. The examination for certification of accountants, aside from becoming uniform for all, became substantially more rigorous. The supply of accountants tended to be constrained by an entry examination and experience requirements, while demand increased. In short, there were no pretenders to the accountants' throne, and advertising was very likely unnecessary. Again, the power of the Federal Government to "regulate trade" is vast. Since the 1960's, forces in support of expanded competitive environments and freedoms have gained considerable power. Consider the number of "rights" acts passed or proposed by Congress since 1964. Advertising existed before 1922 (and for a while afterward) because it was necessary. It may well be necessary again.

Accountants wanted to be a profession. That aspiration realized, there is no real reason for banning the marketing of services. But does a prohibition on advertising help make a profession? At the beginning of the paper it was stated that professions have two attributes: a common body of knowledge and a code of ethics. The *perception* of the users of professional services with regard to advertising will be the principal determinant of the impact of advertising on the "professional image". The advertising phenomenon seems to have been accepted by users of all the other professions without loss of credibility. And who can resist the engaging simplicity of an advertisement which appeared in the *New Jersey Journal* on Wednesday, July 8, 1795:

Notice

> A conveyancing office and office of intelligence will be opened by the subscriber on Monday next, in the brick

house of William Shute, Esq., formerly occupied by Cortland Van Arsdalen; where writings of every kind will be done on moderate terms; also, farmers' and trademen's books posted with accuracy and dispatch and those who do not understand the method of keeping their books will be shewn the form.

Benjamin Thomas,

Elizabethtown, April 21, 1795.

FOOTNOTES

[1]Norman E. Webster, *The American Association of Public Accountants — Its First Twenty Years,* American Institute of Accountants, New York, 1954, p. 79.

[2]Webster, *Op. Cit.*

[3]Robert H. Montgomery, *Fifty Years of Accountancy,* The Ronald Press Company, 1939, p. 45.

[4]John C. Carey, *The Rise of the Accounting Profession Vol. I, 1896-1936,* p. 86.

[5]Reprinted in an editorial in *The Journal of Accountancy,* Vol. I, No. 2, December, 1909, p. 160.

[6]"Chartered Accountant Advertising", reprinted in *The Journal of Accountancy,* Vol. 21, No. 5, September, 1911, pp. 379-381.

[7]"Good Taste and Advertising", *The Journal of Accountancy,* Vol. 12, No. 3, July, 1911, p. 204.

[8]*Ibid,* p. 205.

[9]*The Journal of Accountancy,* Vol. 21, No. 6, June, 1916, p. 444.

[10]"Eloquent Advertising", *The Journal of Accountancy,* Vol. 21, No. 4, April, 1916, p. 285.

[11]*Ibid.*

[12]*The Journal of Accountancy,* Vol. 21, No. 6, June, 1916, p. 444.

[13]Edward Z. Gore, "Should Accountants Advertise?", *The Journal of Accountancy,* Vol. 18, No. 2, August, 1914, p. 95, 96.

[14]*Ibid.*

[15]*Ibid.*

[16]E. G. Shorrock, "Should Accountants Advertise?", *The Journal of Accountancy,* Vol 18, No. 2, August, 1914, p. 101.

[17]*The Journal of Accountancy,* Vol. 29, No. 2, February, 1920, p. 128.

[18]Rules of Conduct, American Institute of Accountants, Rule No. 9, 1920.

[19]John L. Carey, *Rise of the Accounting Profession,* Vol. II, 1937-1969, p. 233.

[20]*The Journal of Accountancy,* Vol. 51, No. 6, June, 1931, p. 402.

[21]*Ibid,* p. 406.

[22]Rules of Conduct, American Institute of Accountants, Rule No. 10.

[23]The entire Rule 502 is as follows: "A member shall not seek to obtain clients by advertising or other forms of solicitation in a manner that is false, misleading or deceptive. The direct uninvited solicitation of a specific potential client is prohibited."

[24]Margaret Marley, "Advertising — The American Experience," *The Accountant* (England) Vol. 189, August 18, 1983, p. 210.

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[25]Marley, *Op. Cit.,* p. 210. Ms. Marley is quoting, in part, Donald C. Agnew, Southwestern Director of Main Hurdman and a member of the Ethics Committee of the AICPA.

[26]Donald L. Atwell, "The Accountant, As A Hustler," *CA Magazine,* Vol. 104, June, 1974, p. 57.

[27]"Ethical Guide for Members of the Institute of Chartered Accountants in England and Wales", *Accountancy,* August, 1975, pp. 42-47.

[28]Margaret Marley, "Advertising — The Debate Opens Up", *The Accountant,* August 11th, 1983, pp. 176-179.

[29]*Ibid.,* p. 176.

[30]Kate Atchley, "Advertising — The UK Decides, The US Reflects, *Accountancy,* September, 1983, p. 14.

[31]*Ibid.,* p. 14.

[32]Gail Counsell, "Advertising — The UK Decides, The US Reflects", *Accountancy,* September, 1983, p. 15.

[33]*Ibid.,* p. 15.

[34]*The Journal of Accountancy,* Vol. 43, No. 3, March, 1927, p. 200.

[35]From an editorial in the October, 1913, *The Journal of Accountancy,* Vol. 16, No. 4, October, 1913, pp. 310-311.

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THE ROLE OF STOCK DIVIDENDS IN DEFINING INCOME, DEVELOPING CAPITAL MARKET RESEARCH AND EXPLORING THE ECONOMIC CONSEQUENCES OF ACCOUNTING POLICY DECISIONS

Abstract: Allegations that stock dividends serve as a vehicle for deceptive financing, evasion of taxes, misleading financial reporting, and stock market manipulation resulted in legislation that prohibited their use in the United States in the latter part of the 19th century. In the 20th century, efforts of the Supreme Court to determine the economic substance and taxability of stock dividends catalyzed a pioneering effort by the Court to define income within the 16th Amendment. As early as 1930 market reactions to stock dividends were investigated; this may have been one of the earliest forms of capital market research. This paper examines the effects of stock dividends on the development of accounting.

Current accounting standards require all pro rata free stock distributions of less than 20-25% of outstanding shares to be characterized as stock dividends and a transfer of retained earnings to the paid-in capital accounts.[1] The amount of the transfer (capitalization) should be the market value of shares issued, but legal requirements (usually par or stated value) represent the minimum amount to be capitalized. Stock distributions in excess of 20-25% should be characterized as stock split-ups (splits), with no transfer of retained earnings to paid-in capital accounts. However, in cases where legal regulations require capitalization of retained earnings for distributions in excess of 20-25%, the standard recommends only the legal minimum be capitalized (usually par or stated value) and that the distribution be characterized as a "split-up effected in the form of a dividend".[2]

English Law

Stock dividends have been a controversial issue for over 100 years though they date back to at least 1690, when the Hudson Bay

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Company declared "that the stock should be trebled — each interestent shall (according to his stock) have his credit trebled in the company's books. . . ."[3]

Since England was first to experiment extensively with the corporate form of organization, it was first to grapple with the phenomenon of stock dividends. The economic substance issue was initially debated in the English courts in litigation concerning life-tenant and remainderman. The following is a typical scenario of such a dispute: A man dies, leaving an estate to a trustee who is to pay to the widow (life-tenant) all earnings from the estate for the duration of the widow's life. Upon the death of the widow the estate is to pass to another heir (remainderman). Only the income from the estate is to be paid to the widow, the "corpus" or capital of the property is to be preserved for the subsequent heir. The question arose as to whether a stock dividend received by the estate was income derived from the assets of the estate, or merely a splitting of the "corpus".

Prior to 1800, English Court decisions were often conflicting. However, early in the nineteenth century, the Court of Chancery and the House of Lords determined that stock dividends were not income to the life-tenant but an accretion of capital.[4] Although the English courts finally agreed on this issue, the same could not be said for their American counterparts.

American Law

Considerable securities fraud is associated with the early American corporate experience, especially in the railroad industry.[5] George Soulê's textbook, *New Science and Practice of Accounts,* originally published in 1881, describes events and practices that were common at the turn of the century. In his 1906 edition, he defines the following terms:

> CLANDESTINE STOCK, is first, a new edition of stock issued without public notice and placed on the market to raise money to cover losses or expenses of which the public have no knowledge.
>
> Note. Clandestine Stock has also been issued under the following circumstances:
>
> The market value of stock is very high, and the company issues and distributes pro rata, at par, to the stockholders of the company, a certain amount of new stock. This new stock is placed on the market, and the full

> market value of the original stock is realized before the fact is known that it is Clandestine.
>
> WATERED STOCK is that which has been increased above the authorized capital by the issuance and distribution among the stockholders of new stock, for which no payment is or will be made.
>
> When these Watered Shares are made transferable, the act of watering is violative of every principle of ethics, and should secure for the parties thereto the judgment of a Criminal Court.
>
> A STOCK DIVIDEND is a certain amount of the profits of a company apportioned to the stockholders and retained by the company, for which new paid-up stock is issued to the stockholders. Or, in the absence of a profit, it may be additional stock, to be paid out of the capital or the future profits of the company, in which latter case it is equivalent to the operation of "watering" stock.

From the above, it appears that stock dividends had a characteristic in common with both "Watered Stock" and "Clandestine Stock," i.e., a pro rata distribution of additional shares *without receipt of consideration from the stockholders.* Much of the suspicion and criticism of stock dividends may well have its roots in the similarity between stock dividends and "Watered" and "Clandestine" stock, and opposition to these practices. For example, on the first page of an entire chapter devoted to stock watering, Ripley (1915) appears to use the terms stock dividend and watered stock almost synonymously.

> Stock-Watering — a much abused term — may be defined as an increase of nominal capitalization of a corporation without a commensurate additional investment of funds. The baldest and simplest form — probably the one primarily responsible for the odium attached to the term by the general public — is the outright declaration of a stock or bond dividend. In this case no new capital whatever is put into the company. The new stocks or bonds are a gift to shareholders.[7]

Not surprisingly, these abuses led to statutes widely adopted by the states in the latter half of the nineteenth century in order to halt the watering of stock. These laws forbade the issuance of stock unless the stock was exchanged "for money or money's worth in property and labor".[8] Many states enforced these laws literally, which effectively outlawed stock dividends. The legislation appears to have been successful in reducing such distributions. During the period 1871 to 1910, only 12 stock dividends were reported by all firms listed on the New York Stock Exchange (NYSE). Dewing (1941) presents these additional data:[9]

1871 to 1914	23
1915	4
1916	7
1917	13

Many corporations attempted to evade this prohibition. The most common practice was the declaration of a cash dividend with the understanding that the cash would be applied to a stock subscription. However, the courts gradually evolved the doctrine that capitalization of retained earnings constitutes consideration of value passing to the corporation. In this manner, stock dividends eventually regained legality.[10]

The suspicion and criticism may also have been the result of confusion regarding the economic substance of this phenomenon. The states initially encountered the same life-tenant and remainderman issues previously addressed by the English courts.

In the eighteenth and early nineteenth centuries, state courts were often in disagreement in their arguments and conclusions. By the mid-1800's, three influential state rulings had emerged; however, since these rulings spanned the spectrum of possible alternatives, little was achieved in terms of consensus. The Kentucky and Massachusetts rules were characterized as "simple'" for being "all or nothing" propositions. The Kentucky Rule declared that all dividends, whether in cash or stock, were income allocable to the life-tenant. In Massachusetts, the opposite position was enforced; all stock dividends were considered capital and not distributable to the life-tenant. The Pennsylvania rule attempted a more discriminating approach but eventually became so complicated as to be inoperable.[11]

The economic significance of a stock dividend in the law of life-tenant and remainderman was finally addressed by the U.S. Supreme Court in 1890. In *Gibbons v. Mahon* (1890), the Court agreed with the Massachusetts rule, declaring that "The resolution is clearly an apportionment of the new shares as representing capital, and not a distribution or division of income".[12] The Court added that:

> A stock dividend really takes nothing from the property of the corporation, and adds nothing to the interests of the shareholders. Its property is not diminished, and their interests are not increased. After such a dividend, as before, the corporation has the title in all the corporate property; the aggregate interests therein of all the shareholders are represented by the whole number of shares; and the proportional interest of each shareholder remains the same. The only change is in the evidence which represents that interest, the new shares and the original shares together representing the same proportional interest that the original shares represented before the issue of new ones.[13]

The above statement has been frequently quoted, and the Supreme Court incorporated it into two subsequent decisions concerning the taxability of stock dividends as income.[14] The authoritative accounting pronouncement on stock dividends incorporated the statement into its text;[15] however, the pronouncement referenced the statement to the *Eisner v. Macomber* decision (1920), rather than the original source *(Gibbons v. Mahon,* 1890).

Defining Income — The Taxability Debate

The constitution of the United States originally provided Congress with power to impose direct taxes only if the tax was apportioned among the states in accordance with population. Income taxes could therefore not be imposed until ratification of the 16th Amendment (1913) which gave Congress the power to tax incomes from whatever source derived without apportionment among the states. Under the 1913 Revenue Act, federal taxes were levied on individual and corporate incomes. Since the Act did not expressly address the taxability of stock dividends, a question concerning their tax status arose immediately.

The lower federal courts upheld the taxability of stock dividends as income under the 1913 Revenue Act, but were later overruled by the U.S. Supreme Court in *Towne v. Eisner* (1918). The Court leaned heavily on its earlier remainderman decision in *Gibbons v. Mahon* (1890) stating "we cannot doubt that the dividend was capital as well for the purposes of the Income Tax Law as for distribution between tenant for life and remainderman . . . what was said by this Court upon the latter question is equally true for the former. In short, the corporation is no poorer and the stockholder is no richer than they were before".[16] However, Congress appeared determined to tax stock dividends. As the courts were deliberating *Towne v. Eisner,* Congress passed the Revenue Act of 1916 which expressly called for the taxation of stock dividends, but did not assert that stock dividends were income.

To no one's surprise, the taxability of stock dividends under the Revenue Act of 1916 was soon challenged, in the case of *Eisner v. Macomber* (1920). The U.S. Supreme Court confirmed its earlier decision that stock dividends were not income, but merely the splitting of the evidences of ownership into smaller portions. However, of the nine member Court, four justices dissented.

This rather lengthy opinion proved to be a landmark decision on stock dividends, and a pioneering effort to define income under the Sixteenth Amendment. Justice Pitney presented the majority opinion, a synthesis:

> The fundamental relation of "capital" to "income" has been much discussed by economists, the former being likened to the tree or the land, the latter to the fruit or the crop; the former depicted as a reservoir supplied from springs, the latter as the outlet stream, to be measured by its flow during a period of time.
>
> Income may be defined as the gain derived from capital, from labor, or from both combined, provided it be understood to include profit gained through a sale or conversion of capital assets, ...
>
> Here we have the essential matter: not a gain accruing to capital; not a growth or increment of value in the investment; but a gain, a profit, something of exchangeable value, proceeding from the property, severed from the capital, however invested or employed, and coming in, being "derived" — that is, received or drawn by the recipient (the taxpayer) for his separate use, benefit and disposal — that is income derived from property.[17]

(This opinion clearly embraces the accounting concepts of recognition, realization and periodicity.)

Justice Brandeis delivered a dissenting opinion, observing:

> Financiers, with the aid of lawyers, devised long ago two different methods by which a corporation can, without increasing its indebtedness, keep for corporate pur-

> poses accumulated profits, and yet, in effect, distribute these profits among its stockholders.
>
> . . . If stock dividends representing profits are held exempt from taxation under the Sixteenth Amendment, the owners of the most successful businesses in America will, as the facts in this case illustrate, be able to escape taxation on a large part of what is actually their income. So far as their profits are represented by stock received as dividends they will pay these taxes not upon their income, but only upon the income of their income. That such a result was intended by the people of the United States when adopting the Sixteenth Amendment is inconceivable. . . .[18]

Although English courts had long ago resolved the income issue and the United States Supreme Court consistently ruled that stock dividends did not constitute income, the controversy continued unabated.

On March 26, 1920, only 18 days after the *Eisner v. Macomber* decision, Senator Nelson of Minnesota proposed a constitutional amendment subjecting stock dividends to income tax.[19] Other legislative efforts included a proposal to tax stock dividends under the guise of a stock-transfer tax.[20]

On December 22, 1926, seven years after the High Court ruling in *Eisner v. Macomber* (1920), the U.S. Senate passed Resolution 304:

> Whereas it has become the usual practice of corporations, in order to protect stockholders from the payment of income taxes, to declare stock dividends; and
>
> Whereas this procedure enables corporations to acquire competing plants, and in this way avoid the provisions of the antitrust law; and
>
> Whereas in order to legislate upon the subject, the Senate should be fully informed as to the extent of this practice: Therefore be it
>
> Resolved, That the Federal Trade Commission be, and it is hereby, directed to ascertain and report to the Senate the names and the capitalization of corporations that have issued stock dividends, together with the amount of such stock dividends, since the decision of the Supreme Court holding that stock dividends were not taxable. . .[21]

In December, 1927, Federal Trade Commission (FTC) chairman, W. E. Humphrey, delivered to the first session of the 70th Congress a 280 page document which addressed the extent of the practice of stock dividends.[22] As the Senate Resolution had requested, the commission compared the magnitude of stock dividends in the seven year period before the *Eisner v. Macomber* (1920) decision (pre-period) and the seven year period after the decision (post-period). The study included firms that were traded on the NYSE as well as many smaller firms that were not members of the Exchange.

One of the studies undertaken examined 2,971 corporations described as "strictly comparable not only for dividends but also for capitalization and surplus for fourteen years".[23] The study disclosed that the dollar amount of stock dividends in the post-period was 476% greater than in the pre-period while cash dividends of the post-period were only 73% greater than those of the pre-period. In the pre-period, stock dividends totaled $408,000,000 which was 8% of total surplus available for dividends. The post-period total of stock dividends was approximately $2,350,000,000 which was 28% of total surplus available for dividends.

Another study listed all firms that had at any time declared a stock dividend during the fourteen year period under review. From this population a sample of 1,000 firms was randomly selected. The results of this study are presented in Table 1.

The report contains numerous other compilations of data including the names and capitalization of the 10,245 corporations that declared stock dividends in the post-period. Chairman Humphrey concluded, "After fully considering the foregoing computations, the conclusion that there has been an enormous increase in stock dividends since the decision in *Eisner v. Macomber* seems inevitable".[25]

The Characterization of Stock Dividends as "Dividends"

After the proliferation of stock dividends in the 1920's, Burtchett (1933) observed, "the term stock dividend has been roundly abused by corporation management; and it is thoroughly misunderstood by the average man of the street".[26] In a business context, the vast majority of dividends have been a distribution of assets. The term "dividends" used alone usually refers to cash dividends. The characterization of a pro rata free distribution of shares as a "dividend" has been widely criticized,[27] as an early writer noted in the *American Economic Review:*

> That the dilution of the stock by passing out new shares free of charge, shall be called a "dividend," is now a fixed

Table 1

Cash, stock, and other dividends paid for the seven years 1913-1919 and the seven years 1920-1926 by 1,000 corporations which paid one or more stock dividends in the 14-year period 1913-1926

Kind of dividend	First 7 years		Second 7 years		Increase (+) or decrease (—) in second period	
	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent
Cash	$2,908,797,623	79.66	$5,035,334,937	58.24	+$2,126,537,314	+ 73.11
Stock	659,856,048	18.07	3,554,343,758	41.11	+ 2,894,457,710	+438.65
Other	82,677,880	2.27	55,933,730	.65	—26,744,150	— 32.35
Total ...	$3,651,331,551	100.00	$8,645,582,425	100.00	+$4,994,250,874	+136.78

> usage; but this usage is in truth a terminological blunder of the first magnitude, and one which has virtually precluded clear thinking about the subject on the part of the general public . . . (a stock dividend is) an almost ineradicable popular illusion . . . a complete fallacy, but one which is likely to live forever.[28]

In the first half of this century large stock dividends were often referred to as "melons"; the issue of a large stock dividend was referred to as "cutting the melon".[29] Since large stock dividends were perceived as analogous to stock splits, the use of the term "melon" may have been an effort to reinforce the notion that large stock dividends were essentially stock splits, i.e., the melon is split into smaller pieces but the size of the "melon" (equity) remains unchanged. However, even large stock dividends could not escape criticism; as the title of one business article observed: "Stock Dividends are Lemons, Not Melons".[30]

Ambiguity of Terminology

A manifestation of the confusion which has surrounded stock dividends is the lack of a clear terminology to describe stock dividends and stock-splits. While attempting to examine the price effect of stock splits in 1933, Dolley observed that, "Some difficulty was experienced in distinguishing between stock dividend and stock split-ups because the manuals often reported a stock dividend as as stock split-up and vice versa. Much greater difficulty was encountered in attempting to separate the true split-ups from the numerous recapitalization plans involving a multiplication of shares outstanding".[31] Although many accountants use the two terms almost synonymously, differentiation has usually been based upon two criteria: size of the distribution and the effects of the distribution upon the equity accounts.

Size of Distribution

Agreement as to what size distribution constitutes a stock dividend (versus a split) has never been reached. In 1934, A. S. Dewing observed, "When there is a 100% distribution, it is sometimes called a 100% stock dividend and sometimes a split. And there are borderline cases".[32] Dewing later noted that two other writers made a distinction based on the effect of a stock distribution on the surplus account. He then stated, "This distinction, however, is not observed in financial parlance. . . . Ordinarily, a free distribution of new stock equivalent to one or more shares for each share held is spoken of as a split, irrespective to the accountants treatment of the capital and surplus accounts".[33] The current authoritative pronouncement requires that when the additional shares issued as a stock dividend is so great as to materially reduce market value, the distribution be characterized as a split-up. However, if legal requirements necessitate such a distribution to be characterized as a dividend, then the distribution should be described as a "split-up effected in the form of a dividend".[34]

Effect Upon Equity

The most objective criterion to differentiate between the two types of distribution is the effect upon the equity accounts. Stock dividends have always been associated with transfer of surplus (retained earnings), to the paid-in capital accounts, while stock-splits usually leave the equity balances unchanged. Indeed, the activity of splitting is common to both stock dividends and stock-splits; consequently, both have been frequently referred to as 'split-ups'. However, since the capitalization of retained earnings is limited to stock dividends, stock splits are rarely referred to as stock dividends.

Small Recurring Stock Dividends as Income

By the latter half of the 1920's, there appears to have been a consensus among accountants and reporting authorities that investors were much more likely to perceive stock dividends as income, i.e., analogous to a cash dividend, if the stock dividends were small, and recurring (periodic). As Montgomery (1928) commented:

> The unsophisticated stockholder of a corporation who receives an extraordinary stock dividend may be assumed to be on notice that he is receiving something which may not be treated as ordinary income, but when stockholders regularly receive quarterly stock dividends in an amount which does not strike them as being extraordinary, they are not to be blamed for assuming that the cash equivalent of the quarterly dividend represents a distribution of earnings equal in the aggregate to the cash value of the quarterly dividends.[35]

Montgomery also complained about the extant practice of reporting dividends in cash and stock, which in aggregate were in excess of current earnings. Other writers criticized the payment of stock dividends from "unrealized appreciation surplus."[36]

The belief of reporting authorities that unsophisticated investors regarded small, periodic stock dividends as income was bolstered when a supposedly sophisticated NYSE official made a public statement supporting the concept. In an address to the American Institute of Accountants (AIA) in September, 1930, J. M. Hoxsey, executive assistant to the Committee on Stock List, took the position that small stock dividends declared period by period and based on current equivalent periodic earnings were income to the recipient. Hoxsey clearly differentiated between small periodic, and large "extraordinary" stock dividends:

> Bear in mind that only small or periodical Stock Dividends are under discussion. No one contends that a Stock Dividend representing a split-up, pure and simple, with no charge against earnings or Earned Surplus is income. . . . We are concerned here with small regular stock dividends based on current earnings.[37]

Since they held that many investors agreed with Hoxsey's perception of small stock dividends, it is easy to understand the desire of authorities to restrict such distributions. As early as 1928, Montgomery offered the following solution:

> The matter is quite important from the standpoint of public accountants and I hope that if there is another side to it some of your readers will set me right. One solution which has occurred to me is that if the auditors of the company were to insist that there be charged against earned surplus the market value of the shares distributed as stock dividends, the whole plan would come to an abrupt end.[38]

Montgomery's views proved prophetic. In September 1941, the Committee on Accounting Procedure (CAP) issued its first pronouncement concerning stock dividends, *Accounting Research Bulletin No. 11* (ARB #11). Two of the more salient requirements of the statement were the restriction of stock dividends to current earnings and the capitalization of shares at market value when market value is significantly above par value or the legal requirement.

Zeff contends that the Committee's pronouncement on stock dividends (ARB #11) is among the earliest intrusions of economic consequences into accounting policy debates.[39] A letter written by George O. May, Vice-Chairman of the CAP, to J. S. Seidman (also a member of the CAP) lends insight into the intent of the committee. In a letter dated July 14, 1941, just six weeks prior to the issue date, May stated:

> . . . .the points you raised were extensively discussed. It was then frankly recognized that they were not purely accounting points but it was the general feeling that they should be dealt with in any report. . . .
>
> I think those present generally were of the opinion that periodic stock dividends were objectionable and I believe this view is shared by the Listing Committee of the Stock Exchange. Neither the Institute nor the Exchange can say that they are not permissible as long as the law allows them. . . .the conclusions reached were that in general, *the effort should be to restrict the possibilities of declaring stock dividends* in such a way as to create false impressions in the minds of stockholders such as those created, for instance, by the periodical stock dividends of some of the public utility holding companies in the past. I think the practical result of our issuing a bulletin such as the committee has prepared would be that the Stock Exchange Committee would immediately adopt regulations with regard to the listing of stock issued as dividends that would be in harmony therewith. This, I think, would have a *very discouraging effect* on those corporations which continue to pay stock dividends. . . .[40] (Emphasis supplied.)

J. S. Seidman officially dissented from the recommendation of ARB #11. One might speculate that May's letter was principally a defense of the Committee's newly adopted commitment to the resolution of other than "strictly accounting" issues of corporate policy, i.e., the consideration of economic consequences.

In 1941, the CAP had been in existence for only 5 years; it is likely that the Committee may have been attempting to establish its influence and credibility. In a letter written eleven years later, May (1952) reflected upon the issues surrounding ARB #11. His comments suggest the CAP was fully aware that its decision to alter corporate financial policy would effectively broaden the scope of its influence and that acquiescence by the SEC and the NYSE would significantly enhance the stature of the CAP in the financial community. With reference to the accounting policy decision to restrict the alleged abuses of stock dividends (ARB # 11, 1941) May stated:

> . . . .The phrase "proper accounting and corporate policy" indicates that the committee went beyond consideration of purely accounting questions. In the early stage of discussion such a step was not contemplated but as the study progressed, the committee came to feel strongly that it had an opportunity, in conjunction with the Stock Exchange, to take a step in the interest of financial morality and to safeguard against recurrence of abuses such as took place in and immediately prior to 1929 in connection with the issue of periodical stock dividends.
>
> Some members of the Committee took the view that the bulletin went beyond the proper province of the committee; that the committee had no responsibility for financial morality but only for accounting procedure. The majority disagreed with this view and felt so strongly that there was an opportunity to bring the influence of the profession to bear. . . .
>
> It was the view of Walter Staub and myself that the action of the committee would constitute a great advance in the status of the profession if the proposal were implemented by the Stock Exchange. . . .[41]

In 1952, ARB # 11 was superseded by the current authoritative pronouncement, *Accounting Research Bulletin No. 11 (Revised),* which is an effort to define and clarify the criteria used in valuation of stock dividends. The accounting implications of the current pronouncement are basically unchanged from its predecessor.

An Antecedent of Capital Market Research

Stock dividends were the catalyst for one of the earliest efforts in the area of capital market research. As noted previously, many viewed stock dividends as income to the recipient. This belief was supported by the contention that stock prices do not fully adjust to stock dividends, i.e., after a stock dividend is issued, stock prices do not decrease pro rata; in this situation, the market value of shareholders' holding is increased. The amount of increase was typically viewed as income to the recipients.

In a study published in the *American Economic Review* in 1930, Shaw Livermore attempted empirically to determine the effect of stock dividends on share prices. As his methodology demonstrates, Livermore fully recognized the critical need to control for the effects of confounding events in his effort to establish causality between stock dividends and changes in stock prices. He was equally aware of the inherent limitations on his ability to establish conclusive results: "Two methods were used to eliminate other influences and measure the effect on market price of the stock dividend in each case. . . .The method outlined illustrates as much as anything else the difficulty that would be met in trying to determine the exact effect of a given stock dividend on market value. . . . Neither can be said to have mathematical exactness."[42]

Methodology

Livermore selected 100 firms that declared a stock dividend of 10% during 1928 and 1929. He desired to obtain "a diversified group of stocks representing many industries, subject to varying degrees of market popularity, each having nevertheless a sufficiently wide market so that changes in valuation would be easily and quickly reflected."[43] Sixty-two firms were eliminated for one or more of the following reasons: "(1) No adequate market prices could be obtained for specific dates. (2) No earnings figures were available. (3) The company was about to enter a merger."[44] Consequently, the study focused on the remaining 38 firms.

The "Checking Method"

The first research design (described as the "checking method") was constructed to facilitate the comparison of stock price movement of stock dividend declaring firms (treatment firms) versus stock price movement for *comparable* firms that did not declare stock dividends (control group). Each of the 38 stock dividend declaring firms (treatment firms) was matched to a control group (described as "checking groups"). Each control group was composed of two or three non-stock dividend paying firms that were "similar in nature of business, record and prospects".[44] Livermore then measured the percentage change in the market price for each of the 38 firms. The percentage change was computed by using the "base price" (market price of the stock 3 months prior to the date of payment) and the "new price" (market price 6 weeks after the date of payment). The percentage change for each of the 38 firms was then compared to its control group for which a similar calculation was made. All calculations were adjusted for the pro rata increase in outstanding shares for the 38 stock dividend paying firms. The results of a comparison of the percentage change in stock prices for each of the 38 stock dividend declaring firms and the *average percentage change* of the control groups ("checking groups") were:[45]

> For ten of the thirty-eight, the spread in percentage gain was more than 20, as compared with the gain in the checking group.
>
> For thirteen others, the spread was greater than 0, but less than 20.
>
> For one, the gain was exactly correct, i.e., a spread of 0.
>
> For twelve, the percentage of loss compared to the "measuring stick" was more than 0 and less than 20.
>
> For two, the percentage loss showed a spread of more than 20.

Livermore described his use of "checking groups" as a "crude way" to control for "other factors" (confounding events) and noted, "These results are valuable chiefly for comparison with the results obtained by the second method."[46] (It is interesting to note Livermore's methodological use of triangulation in this early study.)

"Second Method"

In his second test design, Livermore started with the actual base price, then computed a "theoretically correct" "new price", i.e., the theoretical price of the stock after the stock dividend. With reference to the construction of a theoretical price, he states, ". . .direct adjustment was made in the new price after each stock dividend for (1) earnings, (2) higher dividends if earnings were unchanged, otherwise no adjustment, and (3) for changes in market valuation of stocks of that general type."[47] He then compared the actual "new price" of the stock to the theoretical price with the following results:[48]

> Twenty-five prices were higher than warranted;
> Two were exactly correct;
> Eleven were lower than warranted.
>
> After making adjustments for the price-earnings ratio (the adjustment varying from 3 to 20 per cent), the results were as follows:

Nineteen prices were higher than warranted;
Two were exactly correct;
Seventeen were lower than warranted.

(Since Livermore did not disclose the details of his stock price adjustment processes, a discussion of these adjustments is not presented.) In his conclusion, Livermore alludes to the rationality and efficiency of the market:

> It would appear that there is no net effect of stock dividends upon market price, judging by this small sample. This confounds those wise in the market who see such an effect. It would be possible, if an extension of this study showed similar results, for analysts like Mr. Whitaker to dismiss confidently any true market effect as non-existent rather than "irrational."[49]

Conclusion

This paper has attempted to lend insight into the evolution of stock dividends and their role in the development of accounting. However, the effort to produce an economic impact on corporate financial policies by restricting stock dividends resulted in reporting requirements that appear to be based on assumptions that are inconsistent with empirical observations.

FOOTNOTES

[1]American Institute of Certified Public Accountants (AICPA), 1980, AC 5561.
[2]AICPA, 1980, AC 5561.11.
[3]Scott, 1910, p. 232.
[4]Gibbons v. Mahon, 1890, p. 561.
[5]Ripley, 1915.
[6]Soulé, 1906, pp. 375-377.
[7]Ripley, 1915, p. 227.
[8]York, 1941, p. 25.
[9]Dewing, 1941, p. 816.
[10]York, 1941, p. 25. Dewing, 1941, p. 816.
[11]Sussman, 1962, p. 18.
[12]Gibbons v. Mahon, 1890, p. 569.
[13]Gibbons v. Mahon, 1890, p. 559.
[14]Towne v. Eisner, 1918, p. 159. Eisner v. Macomber, 1920, p. 191.
[15]AICPA, 1980, AC 5561.08.
[16]Towne v. Eisner, 1918, p. 159.
[17]Eisner v. Macomber, 1920, p. 193.
[18]Eisner v. Macomber, 1920, pp. 198, 204.
[19]Senate Joint Resolution 177, 1920, p. 4845.
[20]Zukerman, 1920, p. 591.

[21]Senate Resolution 304, 1926, p. 921.
[22]Senate Document No. 26, 1927.
[23]Whitaker, 1929, pp. 22 & 34. 1931, p. 179.
[24]Senate Document No. 26, 1927, p. 10.
[25]Senate Document No. 26, 1927, p. 14.
[26]Burtchett, 1933, p. 34.
[27]Burke, 1962, p. 283. Burtchett, 1933, p. 344. Chang, 1969, p. 83. Horngren, 1957, p. 384. Siegel, 1932, p. 76. Sussman, 1962, p. 37. Vatter, 1955, p. 408. York, 1941, p. 24.
[28]Whataker, 1929, pp. 22 & 34. 1931, p. 179.
[29]Dolley, 1933, p. 77. Guthmann, 1940, p. 546. Siegel, 1932, p. 76. Sosnick, 1961, p. 61.
[30]Sosnick, 1961, p. 61.
[31]Dolley, 1933, p. 317.
[32]Dewing, 1934, p. 98.
[33]Dewing, 1934, p. 99.
[34]AICPA, 1980, AC 5561.11.
[35]Montgomery, 1928, p. 43.
[36]Kerrigan, 1937, p. 244. York, 1941, p. 26.
[37]Whitaker, 1931, p. 276.
[38]Montgomery, 1928, p. 43.
[39]Zeff, 1978, p. 12.
[40]May, 1941.
[41]May, 1952.
[42]Livermore, 1930, p. 688.
[43]Livermore, 1930, p. 688.
[44]Livermore, 1930, p. 689.
[45]Livermore, 1930, p. 690.
[46]Livermore, 1930, p. 690.
[47]Livermore, 1930, p. 690.
[48]Livermore, 1930, p. 691.
[49]Livermore, 1930, p. 691.

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BARTER: DEVELOPMENT OF ACCOUNTING PRACTICE AND THEORY

Abstract: John Mair, in 1752, stated, "Barter, or the exchange of goods for goods, is nothing else but buying and selling blended together." This statement, for all its seeming simplicity, is an excellent expression of the confusion which has accompanied the practice and theory of recording this most basic commercial transaction. Can one accounting transaction be both a sale and a purchase at one and the same time and for the same accounting entity?

The proper recording of the barter transaction has occupied the attention of accounting text book authors, beginning in 1494 with Pacioli, with various authors expounding different solutions for almost 500 years. It was not until 1971 that a sound theoretical solution was presented.

Barter, or the exchange of one good for another, was the oldest form of commercial transaction. Although this primitive transaction, without the complication of monetary or credit instruments, may seem a very simple one, in fact it presents unexpected difficulties for the accountant. The basic question that arose concerned the nature of a barter transaction. Is it a purchase, a sale, or possibly, as one author characterizes it, a simultaneous purchase and sale? The recommended recording methods varied considerably, and no logical theoretical basis existed for the accounting practices presented.

In attempting to trace the development of accounting theory and practice with respect to the recording of barter transactions we must infer them from the writings of early authors by reference to the demonstrations given in their books. In addition, it may be unjustified to conclude that the methods demonstrated were common bookkeeping practices of the time. Within these limitations, an attempt will be made to deduce the early development of the practice and theory underlying the recording of barter transactions.

Pacioli To the 19th Century

Pacioli, in discussing the accounting treatment for barter, stated: "first enter it (the barter transaction) in the memorandum book, stating in detail all about it . . . then at the end you shall put a money value on it; you shall put down such price in accordance with the current value which the things you have traded have. . ."[1] Unfortunately, it is not quite clear what "things you have traded" meant, the goods given, the goods received, or both. In his first example (Chapter 20) Pacioli uses an example of the receipt of ginger for sugar given in exchange. He states, "I value the sugar 24 ducats per hundred," thus using the value of the goods sacrificed and treating the transaction as a purchase of ginger. In Chapter 36 he offers another example, wool given in exchange for pepper received. He treats this transaction as a sale, saying, "I have sold 1,000 pounds of English wool in exchange for . . . 2,000 pounds of pepper. . . Estimate what the value of the pepper is, at your discretion, in cash." He debited the pepper at this value and credited wool for the same value.

Pacioli, then did establish the principle of using market value but did not establish of which good, that received or that given up.

Jan Christoffels Ympyn also gave attention to barter in his 1547 text. He emphasized the need for the record of a barter transaction to reflect the economic realities of the transaction, but was inconclusive as to the exact method which would accomplish this desired end. He stated that the barter recording should be done in such a way that:

> . . .by which doyng ye shall always perceive whether ye gayned or lost by your Bartryng, because it shall apere what every ware stode you in.[2]

Perhaps the last phrase can be interpreted as indicating the use of the cost value of the goods sacrificed, and of market value for the goods received.

Ympyn was particularly concerned with the business ethics of the practice, for he stated that a barter transaction:

> . . .is made with a purpose on both parties, the one to deceive and beguyle the other, the which may rightly be called bartryng. . .[3]

He continued with a warning that in:

> . . .this thyng is speciall heede to bee taken, for in this manner of choppyng and chaungyng lieth greate hasard and daungier, and no little deceite . . . for commonly the one partie either for lacke of makying his reconyng or for not havyng knowledge of the wares or prices of the same,

> or dooth not consider the tyme whiche passeth and commeth, bee it long or short . . . is ever driven to the worsse.[4]

James Peele, in his 1553 text, when explaining this type of transaction, assumed an equal value for both goods bartered, and treated only the mechanics of recording.

> Bartryng one ware for another, the sommes beeyng equall.
>
> You shall make the wares received, debitour to the wares, delivered. . .
>
> As touchyng barter, there be other wayes to enter it (but all of one effect) as to conveye it to accompt of goodes chaunged, . . . though I have nothing spoken thereof, for I thinke one way in the teaching, is enough to instruct at the first enteraunce into any matter.[5]

No mention was made of the method of arriving at a value for the goods bartered but his examples clearly used an estimated value which could have been the market value of each good.

In his 1569 text, Peele gave a much more thorough treatment to barter. In a discussion between the "Schoolmaster" and a "Scholler" he explained both the mechanism and the method of arriving at the value of the goods.

> Schoolmaster: The 107 example, teachethe howe to enter a parcell of wares delivered in Barter at their excessyve pryce.
>
> Scholler: what you meane by this excessyve price I know not, . . .
>
> Schoolmaster: . . . the goodes receaved and delivered at the excessyve price, are uniformelic charged and discharged, as if they had been bought and solde for readie monie.[6]

The meaning of "excessive price" was clarified in an example where the Schoolmaster debited the goods received (clothes whites) and credited the goods delivered (butts sackes):

> ' . . . for that I mighte have sold the same sackes for . . . the which somme I have made the accompt of sackes Creditour.[7]

In this example Ympyn used the market price of the good sacrificed to place a value on the barter transaction.

Richard Dafforne, in *The Merchants Mirrour* (1660) made the very comfortable assumption that the value of both goods in barter was equal, without attempting to specify any method of determining the value. He busied himself with the accounts, debiting goods received and crediting goods delivered, but stated a preference for an entry through the accounts receivable account.

> But if writing be not tedious unto us, or we are not paper-penurious, the best, and most uni-form booking. . .
> is to have the received Wares Debtor to the Trucking man; and then the Trucking Man Debtor to the Delivered Wares.[8]

In 1732 John Mair first published his remarkably successful *Book-keeping Methodiz'd* (later *Book-keeping Moderniz'd)* which ran through 20 editions over a period of more than one hundred years. Mair recognized the importance of barter in the commerce of his time and devoted considerable space to demonstrating the method for recording different types of such transactions. The 1752 edition demonstrated eight barter transactions involving pure barter and barter combined with cash or credit. Mair began by stating, "Barter, or the exchange of goods for goods, is nothing else but buying and selling blended together."[9] In his illustrative entries for bartered goods he specified that the goods received and goods delivered be recorded for their respective values. The ledger account for Indian chintz gives some clue as to how their respective values were to be determined.

Indian Chintz	*contra*
1751	1751
1/1 To stock at 24 1. 10 s.	4/10 Del. in barter at 25 1.
	4/22 Del. in barter at 24 1. 15 s.
	4/30 Cash sale at 25 1.[10]

The 1/1 inventory price may have been cost or an estimated market price. The credit entries are certainly not valued at cost but at an estimated value. The variation of this estimate on different days and the cash sales price would seem to indicate that the goods sacrificed were valued at market price. His other barter transactions are similarly treated. Each barter transaction illustrated assumed a higher price for the sacrificed goods than the original inventory value, thus each transaction recognized a gain. We cannot hypothesize Mair's practice with respect to losses because none was demonstrated.

It seems likely, then, that Mair followed Pacioli in using market price to place a value on barter transactions. He went beyond Pacioli in uniformly treating each barter transaction as a purchase by having the estimated (market) value of the sacrificed goods determine the transaction amount.

Mair's 1793 (6th) edition of *Book-keeping Moderniz'd* continued the same treatment for barter transactions as was followed in the 1752 edition. Mair's seeming use of market price of the goods sacrificed cannot be interpreted as conclusive evidence that bookkeeping practice over this nearly fifty year period uniformly followed this method. Probably many variations were followed in actual practice. The strong influence which Mair's texts had during this period, however, might well suggest that his method was a preferred bookkeeping practice.

The American author, Chauncey Lee, in *The American Accomptant,* (1797) did not discuss the barter transaction, but in a series of transaction examples bartered salt, which had been inventoried at 75¢ per bushel and which sold a few days before the barter at $1.10 per bushel, for flaxseed. In this transaction, five days later, the salt was valued at $1.12 per bushel and the flaxseed received in exchange at $1.60 per bushel.[11] No explanation was given as to which value, that of the salt or that of the flaxseed, determined the value of the transaction. The similarity of the $1.12 per bushel price of salt to its earlier cash selling price certainly indicates that market value was used and gives some strength to the assumption that the value of the goods sacrificed (salt) was used to determine the value of the transaction. Lee's inclusion of eight barter transactions out of only 55 demonstrations covering a period of 6 months indicates the importance of barter at the end of the eighteenth century.

Bryant Sheys in *The American Book-keeper* (1818) included a section entitled "Of Bartering Goods or Merchandise"[12] in which he illustrated various barter transactions stating that each good should be debited and credited for its value. The method of determining value and the use of goods delivered or goods received to value the transaction were not discussed. In a barter transaction later in the book,[13] oil with a cost of $100 per ton and which had been sold for $150 cash price on April 11th was valued at $200 per ton when bartered for Canary wine priced at $120 per pipe on April 13th. On April 25th Canary wine was sold for $150 per pipe. These widely varying values for oil and Canary wine in such a short period of time indicate the use of a very rough estimated value for both rather than a market value. However, it would seem certain that an estimated value was used but whether of the goods delivered or the goods sold cannot be determined.

After this early part of the 19th century the subject of barter gradually disappeared from bookkeeping texts, even as illustrative examples. From the time of Pacioli until the early 19th century there seems to have been general agreement that an estimated value be used for the goods given and received. This estimated value, in most cases, was closely related to market value. There was less agreement on the use of the price of the good sacrificed to value the transaction. There is some evidence of this preference but most of the early texts consulted were silent on the subject, assuming that the estimated value of goods received and delivered were the same.

Emergence of Cost Basis Valuation of Barter Transactions

It would appear that the practice of using market value to record barter transactions changed sometime after 1800 and that the strong cost convention which grew up over the later part of the 19th century changed barter recording practice to valuation of the transaction through the cost of goods sacrificed rather than market price.

In 1939, Kenneth MacNeal wrote about the then current accounting practice for recording barter transactions.

> If a business exchanges one asset for another through a process of barter, accounting convention ordinarily prescribes that the asset acquired shall be valued at the figure at which the asset exchanged was formerly carried on the books.[14]

Although MacNeal took exception to this practice as will be discussed later, others defended it.

In 1939 Canning expressed reluctance for the use of estimated values, market price or otherwise.

> A direct valuation is possible when, and only when, a realized money income exists and is statistically determinable.[15]

Gilman, in the same year, took a strong position in favor of the use of book value of the sacrificed good to establish the value of a barter transaction, thus precluding any recognition of gain or loss.

In presenting an illustration of an automobile dealer exchanging a used car with a cost of $200 and a sales price of $250 for shares of General Motors stock, he stated:

> This illustration emphasizes what appears to be the important concept of realization; when an entity exchanges one asset for another asset, no income is realized unless the new asset is a claim to cash which, in the normal course of events, will be converted into actual cash without the necessity of any subsequent sales transaction.[16]

Gilman further clarified his position.

> If, on the other hand, the automobile dealer had exchanged the car for office equipment or for gasoline or for shop tools, there would be no realization of income, and these new assets, regardless of their market value and regardless of how quickly they might be disposed of, would take the same value on the dealer's books as the automobile which they replaced, namely $200.[17]

Robert H. Montgomery, in his auditing text stated:

> In this book, as in former editions, I present what, in my opinion, constitutes good auditing and accounting practice and procedure, all of which has stood the hard usage of the school of practical experience.[18]

Because of his eminence in the accounting profession he must be considered an authoritative interpreter of American accounting practice of the early 20th century. In speaking of fixed assets acquired in trade (barter) he stated:

> Occasionally business concerns acquire property in exchange for other property. The usual rule requires that such assets be valued at the carrying value of the property disposed of, plus or minus any boot. . . . When the acquired property has been recently appraised or has a readily obtainable market value, such value may indicate the real basis for the exchange.[19]

While the "general rule" called for the use of cost of property given in exchange as the basis for determining value, Montgomery did recognize that there were circumstances which could make the use of cost improper.

Discrediting the Cost Basis

Kenneth MacNeal disagreed with Gilman, and favored using current market value to quantify barter transactions because it most accurately reflected economic realities.

> Moreover, if the transaction was by barter, the original cost may have represented neither an economic value nor a private price, but merely an accounting convention obtained through the exchange of one going value for another.[20]

Paton and Littleton took the position that in an exchange of one asset for another the acquired asset should be valued at the selling (exit) value of the asset sacrificed.[21] Paul Grady in *Accounting Research Study No. 7* agreed that the good received in barter should be valued according to the market value of the good sacrificed.[22]

Chambers offered an economic justification for the use of the value of the goods sacrificed as a basis for valuation of a barter transaction.

> Direct exchange is the interpersonal transfer of the ownership of goods for the ownership of other goods. It is a process by which each person, taking account of the marginal valuations of the goods he holds at any time and the goods offered in exchange by others, endeavors to arrange that the marginal valuations of his holdings approach equality. — *The sacrifice of the satisfaction which is expected to be obtained from the possession or use of the goods given is the cost of the goods received.* (italics added).[23]

Elsewhere Chambers advocates the use of fair market value as the best means of measuring economic values. His conclusion, then, is that barter transactions best reflect economic realities when recorded at the current market value of the goods given in exchange. This, of course, would recognize a gain or loss on the exchange if the current market value of the sacrificed goods was different from original cost.

In 1963, Moonitz and Jordan advocated treating barter as both a sale and a purchase with the use of the fair market values of both the article sacrificed and the article received.

> An exchange of one unit for another may be . . . handled

> . . . by treating the transaction as a sale of the old unit at its fair market value, recognizing any book gain or loss on the deal, followed by a purchase of the new unit at its fair value.[24]

Accounting Principles Board Opinion No. 29 indicated that by 1973 accounting practice with respect to barter transactions had reverted to that proposed by John Mair in 1752. The basic principle for recording nonmonetary exchanges was stated to be:

> Accounting for nonmonetary exchanges should be based upon the fair values of the assets (or services) involved which is the same basis as that used for monetary transactions. Thus the cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered to obtain it, and a gain or loss should be recognized on the exchange.[25]

Two modifications were stated:

1. The fair value of the asset received should be used to measure the cost if it is more clearly evident than the fair value of the asset surrendered.
2. If the exchange is not essentially the culmination of an earning process, accounting for an exchange of a nonmonetary asset between an enterprise and another entity should be based on the recorded amount . . . of the non-monetary asset relinquished.[26]

Nonmonetary exchanges not resulting from the culmination of the earning process were of two types:

a. An exchange of a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business, to facilitate sales to customers other than the parties to the exchange, and
b. An exchange of a productive asset not held for sale in the ordinary course of business for a similar productive asset.[27]

Modification (1), the use of the fair value of the asset received if more clearly ascertainable than that of the asset sacrificed, is evidence of the pragmatic nature of accounting practice of that period.

U.S. Federal Income Tax Treatment of Barter Transactions

The U.S. Federal income tax regulations with respect to barter transactions stated that as a general rule, the fair market value of the *property received* in exchange for property (other than productive assets) shall determine the amount received by the taxpayer. The difference between this value and the tax base of the property given in exchange will result in a taxable gain or deductible loss.[28] Labor barter is also covered by the regulations. When compensation for labor is received in the form of property, the taxable wages are valued at the fair market value of the property received.[29] In general, federal income tax regulations treat a barter transaction of property or services for other property or services as a sale by both parties and a taxable transaction for both. Actual tax practice as evidenced by court cases discloses no clear principle of valuing barter transactions except that fair market value be used. The Prentice-Hall tax service stated:

> Recent cases and rulings measure the cost of the property received in exchange, by its fair market value at receipt. Other decisions measure the cost of the property received, by the fair market value of the property exchanged for it . . . in most cases the result will be the same under both methods.[30]

Thus, U.S. federal income tax practice, as is often true, does not follow either accounting practice or accounting theory.

An Accounting Theory For Barter

Accounting authors have presented different methods for accounting for the barter transaction, and no author, from Pacioli until 1971, supported a practice with a theoretical account of logical relationships with other generally accepted accounting practices.

There are two basic questions involved in the accounting treatment of barter transactions. First, what value shall be established for recording the transaction: cost, book, market or other estimated value? Second, should this value be that of the good received or the good sacrificed? Critical to this consideration, if we are to seek a logical solution consistent with other generally accepted accounting principles, is the question of whether the barter transaction is basically a purchase or a sales transaction.

Under generally accepted accounting principles, purchase and sales transactions receive quite different accounting treatments. A purchase is recorded at a value established by the cost of the item given in exchange, and no gain or loss is recognized. A sale, on the other hand, is recorded at a value determined by the market value of the item received, and any gain or loss on the transaction is recognized.

Sterling and Flaherty have provided a persuasive theoretical construct for the accounting treatment of a barter transaction, which may be summarized:[31]

a) An exchange is a two-way flow of goods.
b) Neither good has a value attached, but one must be assigned by the accountant.
c) When the value of one of these goods has been assigned it can be used to impute the value of the other.
d) One good (the first valued) is "independently valued and the other dependently valued."
e) Had cash been received or given as one side of the barter, cash would have been the independent value because of its liquidity.
f) Therefore, either the good given or received should determine the independently valued item, depending upon which good is the most liquid.
g) If the good received is independently valued, the transaction is basically a sale and would result in realization of a gain or a loss.
h) If the good sacrificed is independently valued, the transaction is basically a purchase and no gain or loss should be recognized (record transaction at book value of the sacrifice).

To follow this approach would permit the treatment of a barter transaction in uniformity with related generally accepted principles. This is made possible by first determining whether the transaction is a sale or a purchase. Sterling and Flaherty provide the logical means of making this determination by the use of a liquidity concept (on the basis of a value preference array established with cash first and retained earnings last).

Summary

Accounting for barter began, surprisingly, in agreement with today's accepted practice. Pacioli and his followers recommended methods which today appear theoretically sound. During the years when historical cost dominated accounting, barter accounting changed to record barter transactions at the book value of the goods given in exchange. Beginning with Kenneth MacNeal in 1939, these practices were strongly challenged and generally accepted accounting practice changed to a basis more theoretically defensible.

Valuation at current market value, and a strong preference for determining the transaction price by the use of the value of the goods sacrificed, is currently recognized by the accounting profession, through generally accepted accounting principles, as meeting the requirements of sound accounting theory. Practice acknowledges some modifications, such as using fair market value of the goods acquired if it is more clearly evident than that of the goods sacrificed. This slight departure may be necessary to adapt accounting theory to particular situations.

Sterling and Flaherty indicated that current accounting practice for barter does not fully meet the test of consistency with other generally accepted accounting practices. The use of fair market value of the good received (a sale) to record the transaction requires recognition of gains and losses when that value differs from the originally recorded cost basis of the good. This is in agreement with the generally accepted practice for a sale of goods, but if the transaction is basically a purchase no gain or loss should be recognized. Sterling and Flaherty have presented a practical and logical method for determining whether a barter transaction is a sale or a purchase.

FOOTNOTES

[1]Pacioli, p. 57.
[2]Ympyn, Chapter XVII (pages unnumbered).
[3]Ympyn, Chapter XVII (pages unnumbered).
[4]Ympyn, Chapter XVII (pages unnumbered).
[5]Peele, 1553, Chapter III, The Instructions, parcell 63.
[6]Peele, 1569, Schoolmaster and the Scholler, example 107.
[7]Peele, 1569, Schoolmaster and the Scholler, example 108.
[8]Dafforne: Qu 71, p. 22.
[9]Mair, p. 26.
[10]Mair, p. 127.
[11]Lee, pp. 253 to 256.
[12]Sheys, p. 17.
[13]Sheys, p. 124.
[14]MacNeal, p. 159.
[15]Canning, p. 207.
[16]Gilman, p. 103.
[17]Gilman, p. 104.
[18]Montgomery, p. iii.

[19]Montgomery, pp. 237 & 238.
[20]MacNeal, p. 160.
[21]Paton & Littleton, p. 27.
[22]Grady, p. 254.
[23]Chambers, p. 64.
[24]Moonitz & Jordan, p. 361.
[25]AICPA - APBO # 29 ¶ 18.
[26]AICPA - APBO #29 ¶ 18.
[27]AICPA - APBO #29 ¶21.
[28]Prentice-Hall, 31; 037.
[29]Prentice-Hall, 7071
[30]Prentice-Hall, 31:197.
[31]Sterling & Flaherty, p. 443.

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HISTORICAL NUGGETS

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FINANCIAL ADMINISTRATION OF ANCIENT ASHANTI EMPIRE

Abstract: Ashantl was an empire which flourished in the forest region of present-day Ghana in the 16th and 17th centuries.

Ashanti was a monarchy with a bureaucracy financed through taxes. The system of tax collection was one of apportionment among the levels of the social strata that were required to bear the tax burden.

Accounting controls over funds which finally reached the coffers of the monarch involved boxes. The operations and uses of *Adaka Kesie* (the Big Box) and *Apim Adaka* (the Box of Thousand) could be likened to a current account and a petty cash account respectively.

Ghana evolved through amalgamation of three separate units — the Colony, the Ashanti Region, and the Northern Territories, known as the Gold Coast.

Prior to British colonisation of the Gold Coast it was inhabited by various tribes, and civilisation flourished in the forest and savannah regions. States like Ashanti, Akwamu, Denkyira, Akim, Kwahu, Fanti (known collectively as Akans) developed in the forest region, and Mossi and Tallensi in the savannah region.

Each of these ethnic groups developed a monarchical and civilised form of government, with the modern facets of administration, completely independent of any European influence. What is relevant with respect to the government of these nation-states is their finance, and more specifically their taxation — the raising of revenue to carry on the numerous activities of government. They never developed a complex system of taxation by modern standards; however, they established systems that served their needs.

This paper concentrates on the sources of revenue available to Ashantis because, first, it was representative of the Akans and secondly, it was the most advanced system of government in the

Gold Coast. Less important, Ashantis dominated the history of the Gold Coast for many years.

A good understanding of the sources of revenue and financial administration of Ashanti calls for a comment on the political structure of Ashanti.

Political Structure of Ashanti[1]

Ashanti was a confederacy and had a decentralised bureaucracy. The head was *Asantehene* (King of Ashanti), and below him were Divisional Chiefs. The state was composed of tiers of authority, and its lowest and most characteristic unit was the village. The villages are normally composed of clans. Within any village the clan contained a number of families, traditionally the descendants of one female ancestress; each clan recognized a head.

The State was composed of a hierarchy of sub-chiefs and divisional chiefs under a paramount chief *(Omanhene).* A typical Ashanti division was made up of a hierarchy of positions. Under each divisional chief were two senior sub-divisional chiefs — the *Kontihene* and *Akwamuhene.*[a] Other sub-divisional chiefs were *Adontenhene, Nifahene, Benkumhene, Kyidomhene* and *Akobiahene.*[b] Each chief was assisted by a queen-mother, a council of elders, officials and palace attendants.

Sources of Revenue

This bureaucracy had to be financed. Rattery[2] had categorised the revenue sources of an Omanhene into death duties, *(Ayibuodie),* trading *(Batadie),* court fees and fines *(Aseda* and *Atitodie),* and mining *(Asikadie).* According to Rattery, this represents the order of their productivity.

Death duties were paid by the family of the deceased. The rooms of the deceased were locked in order to facilitate the assessment of the value of the deceased's estate. The amount to be paid was left invariably to the discretion of the relatives of the deceased. It appeared, therefore, to be a voluntary contribution. The system of

[a]It was Osei Tutu (founder of the Ashanti Kingdom) who created two captains, which he called *Kontihene* (created because of war) and *Akwamuhene* (in memory of Akwamu where Osei Tutu spent some of his youthful days), and which ranked as the most senior subdivisional chiefs.

[b]This sub-division emphasised the military strategy of Ashantis. Adontenhene was commander of the main body of troops. Nifahene was commander of the right wing of the army. Benkumhene led the left wing. Kyidomhene was leader of the rear-guard. Akobiahene was responsible for the safety of the State.

collecting death duties might have been open to abuse, but much reliance was placed on the loyalty of the subjects to make the system work.

In ancient Ashanti, trading *(Batadie)* used to be the monopoly of the "stools"[c]; the subjects were therefore, prohibited from trading. This fruitful source of revenue was short-lived, however, because trading later became an unrestricted activity in which any subject could engage.

Another good source of revenue was from court fees and fines *(Aseda* and *Atitiodie).* Aseda payments served a dual purpose. First, they were thank-offerings paid by an innocent party to the officials who constituted the court, and this was the manner in which the court officials were paid. Aseda money never enriched the chief since it was divided[d] in some predetermined proportions among members of the tribunal present and various divisional chiefs and palace attendants.[3] Secondly, Aseda payments served the purpose of securing witnesses to attest to the judgment of the court should the decision ever be questioned. This was an ingenious way of making litigants pay for the cost of settlement. Atitiodie was "blood-money" accepted by the chief in certain cases in lieu of the death penalty. The whole amount was paid into the chief's treasury.

The chief also received revenue from gold-mining *(Asikadie).* One-third of the proceeds went to the actual tenant on whose land the mines were worked. The remainder went to the head-chief of the division. There was a small mine at Soko[4] which was said to have yielded 2,000 ounces of gold some months, and at other times not more than 700 ounces.

Apart from the sources enumerated above, there were miscellaneous sources of revenue. The conquered states like Fanti and Akim, to mention a few, had to pay annual tribute in human beings, cattle, poultry, and native manufactured cloth. Of the human beings, some were kept for domestic purposes, others were used as soldiers, and the rest were sold to meet public expenses.

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[c]The stool symbolises the hereditary office of a chief and embodied the spirit of the ancestors.

[d]Cf. Busia, K. A.: *The Position of the Chief in the Modern Political System of Ashanti,* 1928 p. 81: "The aseda was distributed among the chief, his Abusua-panyin (elder of the royal lineage), the queenmother, the Okyeame, the elders, females of the royal lineage, stool-carriers and keepers of the mausoleum, the sword-bearers, the treasurers, children and grandchildren of the chief, gun-carriers, and even strangers of the public who happened to be present at the trial."

There were a number of ways of replenishing the treasury on special occasions. *Ayituo* was a levy to cover the expenses of a chief's funeral. *Fot'obo* was a levy on the installment of a new chief. *Omantuo* was a contribution for some specific purpose, for example, to cover the expenses of a new palace. *Asasetuo* was a levy on land which was paid in foodstuffs, game, and fish. If one swore the oath[e] of *Kormante ne Memenada*[5] (in memory of the death of Osei Tutu), the fine was one hundred and ten *peregwans.*[f]

Traders who passed through Ashanti from the north to the south and vice versa paid a levy of £0.30 or £0.40 in gold dust.

Cocoa and kola plantations were established, the produce of which went to the chief's treasury. Farms established solely for the generation of revenue have persisted to this day.

Collection of Revenue

The collection of revenue was decentralised. Every chief of any standing possessed his own local treasury under the official generally known as the *Sanaahene* (head of the leather bag). All revenue eventually paid into the chief's treasury was collected through and by these sub-treasuries, each unit collecting only from those under his direct control, and paying the lump sum into the treasury of its immediate overlord.

The chief's council or the *Birempong* (Elder's) council decided on the amount of levy to be collected. The total amount was divided into two equal parts — the *Omanhene* was responsible for one-half and the Birempong was to collect the other half. The Omanhene's share was further divided into five equal parts. He took responsibility for one-fifth and the remainder was taken up equally by the Kontihene, Akwamuhene, Adontenhene, Kyidomhene and Gyasehene (in charge of the chief's household). The Omanhene's one-fifth was sub-divided into two equal parts and distributed among the heads of nine groups of palace officials. Thus, it was a system of apportionment and reapportionment which ultimately was paid by the ordinary subjects *(nkoa).*

Accounting[6]

There was an ingenious and effective system of accounting, and strict control of public funds. For revenue and expenditure, there

[e]An oath in Ashanti refers to some misfortune or disaster that, according to tradition, occurred in the past. They are sworn as a manifestation of one's seriousness under any circumstances.

[f]Sometimes spelt "peredwan," it was equivalent to £8.00.

were two boxes — *Adaka Kesie* (the Big Box) which was partitioned into three compartments, and a second box called *Apim Adaka* (the Box of Thousand). The three partitions of the Adaka Kesie contained packets of gold dust, each to the value of one *peregwan.* For purposes of control and effective accounting, nothing less than a peregwan was deposited in this box, and nothing less than that was taken out.

The Apim Adaka (Box of Thousand) was meant for expenditure. This was occasionally replenished by a paregwan (£8) taken out of the larger revenue box (Adaka Kesie). The money was weighed out in small packets to enable the Sanaahene to pay for purchases. Payments were recorded by cowrie shells, which were put into the Apem Adaka anytime a packet was withdrawn.

The Sanaahene had another box in which smaller amounts were kept. When there was enough to make a peregwan, it was weighed out and put into Adaka Kesie.

The keys to the Adaka Kesie were in the care of the chief, the Sanaahene, and the chief of the "bed-chamber" known as *Daberehene,* and kept under the chief's bed. This system resembles modern banking practice, where more than one person is required to open vaults where money and valuables are kept.

The Adaka Kesie and Apim Adaka have been likened to a Capital Account and a Current Account respectively.[7] The available literature on the operation and uses of these two boxes would suggest that the Adaka Kesie was a Current Account while the Apim Adaka was a Petty Cash Account, because a fixed amount (one peregwan) was taken from the Adaka Kesie as reimbursement for payments which had been made from the Apim Adaka. One is, therefore, inclined to conclude that the operation of Apim Adaka was along the lines of the imprest[8] system of petty cash.

Summary and Conclusion

Ashanti had a well-organised government; it was, therefore, necessary that they develop a good fiscal system to finance the government. The main sources of revenue were tributes from conquered tribes, death duties, land taxes in the form of food-stuffs and game, trading, dues paid by traders, proceeds from stool farms[g], and special contributions.

[g]Stool farms were plots of land cultivated by the subjects for the upkeep and financing of the monarchy. These were usually in the form of cash crops such as cocoa, coffee and kola nut plantations, and food crops like cocoyam, cassava and plantain.

The stool farms call for special comment because they show that the need for state participation in economic activity in competing with private enterprise, and as a source of revenue, was recognised by Ashanti long ago. And in most Akan areas of Ghana, stool farms still provide much revenue today, but the proceeds from these farms are used solely by the chief.

Collection procedure left much to be desired and could easily be manipulated by greedy and frivolous chiefs. Certain sub-chiefs avoided tax by collecting more than was required from their subjects, thereby shifting their tax burden wholly on their subjects, and ended up making gains for their treasuries. Though Ashanti had an effective accounting system, the controls were weak in matters respecting collection of and accountability for taxes. The system was only effective in respect of what actually reached the treasury and was disbursed by the treasury. It has been suggested that the system worked well because destoolment of chiefs for misappropriating "stool funds" (which was one of the charges) was very rare before the period of the British Administration of Ashanti.[9]

Most of the taxes levied have persisted until today. From 1974 to 1978 the Asantehene (King of Ashanti) levied a tax on Ashantis in order to build a new palace. However, these taxes have lost their significance because the sanctions of customary law have become ineffective because of alienation, detribalisation, and emigration.

On the whole, the system may have generated funds to finance the government in the old days, although rudimentary by modern standards. Most people complied out of fear, especially in the case of conquered tribes, since refusal to pay tribute often led to war. Others might have complied out of reverance for the Asantehene.

One would have thought that these taxes would have been taken over and developed by the local governments for the benefit of the communities. The fact is, however, that local governments have never generated enough revenue to undertake development, and therefore they still look to the central government for supplementary funds.

FOOTNOTES

[1]Apter, pp. 114-116. Busia, pp. 5-20.
[2]Rattery, pp. 107-112.
[3]Busia, p. 81.
[4]Bowdich, p. 319.
[5]Busia, p. 75-78.
[6]Reindorf, p. 108. Busia, pp. 83-84.
[7]Reindorf, pp. 117-118.

[8]Wood, p. 224.
[9]Busia, p. 82.

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The first book on the subject of budgeting, and the first textbook on managerial accounting, were both authored by James O. McKinsey, a professor at the University of Chicago. Before McKinsey, internal users of accounting information were largely neglected by educators.[1] Only through years of practical experience could a young accountant hope to master the knowledge needed to profitably use management accounting information. McKinsey also authored the first edition of what later became, according to industry sources, the most successful accounting principles textbook in America. Unfortunately, McKinsey's name does not appear in much of the current literature on accounting history.

He was also one of the main contributors to the development of accounting education in the United States during the first third of the twentieth century. He became president of the American Association of University Instructors in Accounting, the predecessor of the American Accounting Association, in 1924 when only 35 years of age. One noteworthy aspect of his year as president was that conferences with representatives of the American Institute of Accountants resulted in accounting instructors being accepted for membership in the Institute. Previously, Institute membership had been limited to practitioners.[2] This milestone is especially noteworthy because educators had been seeking admission for nearly a decade.

McKinsey made another significant change in 1923, when vice president of the American Association. Prior to that time, accounting educators had always held their annual meeting in conjunction with that of the American Economic Association. However, in 1923, McKinsey made the decision to break with tradition and hold a separate annual meeting in Columbus, Ohio. He believed that the Association's major base of support was in the Midwest, and that the central location was preferable to the East Coast site that had been selected by the economists.[3]

McKinsey also played a role in the establishment of *The Accounting Review.* In 1923, he became chairman, and William A. Paton, and Thomas H. Sanders were named members, of the Association's first Committee on Publications. The Committee's charge was to determine whether a quarterly publication should be issued by the Association. McKinsey and Paton constituted the majority favoring publication. Subsequently, McKinsey defended the Committee's position at the annual meeting in Columbus with a variety of arguments that Hiram Scovill called one of the outstanding events of the Association's first quarter century.[4] Despite the fact that McKinsey was an early leader of the American Accounting Association and a pioneer in developing budgetary control, managerial accounting, a managerial approach to finance, and accounting education in general, he has not yet been inducted into the Accounting Hall of Fame; nor is he much discussed in accounting retrospects.

Although his contributions to the field were many, McKinsey's career in accounting education was rather short. Following his year as president of the American Accounting Association's predecessor organization, he changed his interest from accounting to management. In 1925, he founded McKinsey and Company, consultants, and in 1926 became a professor of business policy at the University of Chicago. His professional contributions continued, and in 1936, he was elected chairman of the American Management Association, an organization he helped organize. In 1935, McKinsey completed a management consulting engagement for Marshall Field & Company, the large Chicago department store chain. The Board of Directors was so impressed with his work that he was hired as chief executive and chairman of the board. The last three years of his life, 1935-1937, were spent with Marshall Field & Company. McKinsey died at the early age of 48.

The Early Years

James O. McKinsey was born in Missouri in 1889. In 1912, he received a Bachelor of Pedagogy degree from State Teacher's College in Warrensburg, Missouri. A year later he obtained a law degree from the University of Arkansas. McKinsey's interest in business education was noted even by his law student colleagues at Arkansas. The "Class Prophecy" predicted that McKinsey would someday buy out Draughon's Business College (a large chain of business schools) and change the name to McKinsey's Business College.[5]

McKinsey's accounting career began in 1914 at St. Louis University, where he studied and taught bookkeeping. Although he already had a bachelor's and a law degree, McKinsey decided to enter the School of Commerce at the University of Chicago where he subsequently earned both bachelor's and master's degrees. He received his master's degree in 1919, the same year that he passed the Illinois CPA examination. Before he had completed his degree program at Chicago, George E. Frazer, a professor of accounting, asked McKinsey to join the accounting faculty. This was typical for McKinsey, starting with his high school, as he claimed that he was hired to teach in every school that he attended, before graduating. Frazer also hired McKinsey to work in his public accounting firm (Frazer and Torbet), and sent him to New York, to establish an office of the firm there. During his time in New York, McKinsey lectured in accounting at Columbia University. In 1921, he returned to the University of Chicago.[6]

He began his prolific writing career in 1919. One of his first publications was a teacher's guide to the Revenue Act of 1918. In 1920, he and A. C. Hodges wrote *Principles of Accounting,* published by the University of Chicago Press. Also in 1920, McKinsey published the first volume of *Bookkeeping and Accounting,* followed by the second volume a year later. These two volumes were written for secondary school students.

McKinsey took a pioneering philosophy in accounting education through his emphasis on principles over techniques. He required students to view accounting as a manager rather than as a bookkeeper, and he believed that all educated people should be able to understand accounting data. McKinsey maintained that accounting was the equal of any university course in teaching students to reason analytically. He produced three more books in 1922: a case study of a manufacturing company; a two-volume *Financial Management;* and *Budgetary Control.*[7] His book on budgetary control is a classic of the subject now described as "Management by Objectives."

Budgetary Control

The period after 1920 was one of substantial and rapid growth in the use of budgets, and the publication of *Budgetary Control* provided considerable impetus. World War I and the resultant drive for efficiency provided added stimulus for acceptance of Mc-

Kinsey's work, which summarized experimentation to date to provide a complete budgetary program for industry. McKinsey's book was the first standard work on budgeting and the first attempt to cover the entire budgetary program.[8] He was aware that his book was a pioneer effort, and the first paragraph of the preface acknowledged that "this is the first attempt, so far as as the author is aware, to present the subject as a whole, and cover the entire budgetary program." In fact, before the publication of McKinsey's book, budgeting was not even considered applicable to business operations. With respect to the popular conception of budgeting at that time, McKinsey stated:

> In the past, budgetary control has been considered primarily in connection with governmental units. There has been much interest manifested in the budget of the national government. . . . As a consequence many people have come to think of budgetary control as an instrument for governmental administration. Not only is this the popular view but practically all the literature on budgetary control is confined to a discussion of governmental budgets. . . . It is the purpose of these chapters to show that the principles of budgetary control are as applicable to the individual business units as to the governmental unit, and to explain the method by which these principles may be applied.[9]

McKinsey noted in the preface that he was indebted to his partner, George E. Frazer, for his counsel and assistance. A secondary source[10] speculates that Frazer was the source of many of McKinsey's ideas. Indeed, Frazer was McKinsey's professor, his department chairman at Chicago, and his CPA firm partner. Frazer was reportedly pleased with *Budgetary Control* because it followed outlines used in his seminar at the University in 1917 and 1918.

McKinsey's book stressed the fact that budgeting was a dynamic field in which all of the answers were still not known. In the preface, readers were asked to submit constructive criticisms to the author. Still, despite the fact that the book was a pioneer effort, it covered most aspects of budgeting. In 1945, *Budgetary Control* was included in a list of the twelve most indispensable books in the field of management.[11] The author of that selection apologized for including such an old book on the list, but stated that McKinsey's work had lost none of its value with the passage of time. In fact, there was little of current importance excluded from McKinsey's book about the budget as a planning tool, with the exception of flexible budgeting. McKinsey never mentioned this concept, although he repeatedly stated that unit costs would vary as volume changed. He did recognize the problem presented by changing production volumes:

> Estimates cannot be made which are entirely accurate, and consequently they must be used with judgment and not followed arbitrarily. It is also necessary that provision be made for frequent revisions of these estimates as actual performance shows variations from the estimated performance.[12]

McKinsey recommended revising budgets as soon as actual volume levels were known.

Flexible budgeting was not an important omission from McKinsey's system because he considered the budget more as a planning and communication tool than as a control tool (despite the title of the book). In fact, the communication aspects of the budget were probably McKinsey's greatest contribution. In effect, he saw the budget as a device to integrate all of the decision areas of business administration.

McKinsey's *Budgetary Control* was actually a compilation of several of his articles that had been published over the two preceding years. Although these articles had appeared primarily in *Administration* magazine, some were also published in such journals as *American Fertilizer* and *Cost Accountant.* The book was heavily based on McKinsey's consulting work and included numerous illustrations of factual situations.

Managerial Accounting

McKinsey's philosophy of accounting was that it should serve as a basis of functional control in a business. To serve in this way, accounting had to be more than merely a history of past results. Instead, accounting had to be able to show how the present came to be and what the future was to bring forth. Unlike most accounting educators of the time, McKinsey thought that "accounting, if it is to serve as an aid in administration, must provide information which can be used as a basis of action and not information which can serve only as a basis of repentance."[13]

Although McKinsey's first managerial accounting textbook was not published until 1924, he publicly espoused his philosophy of managerial accounting education in a 1919 article in the *Journal of*

Political Economy.[14] McKinsey was quick to criticize not only accounting educators for their stodgy methods, but public accountants as well:

> Too often the accountant in the installation of an accounting system regards the pro forma balance sheet and statement of profit and loss which he is accustomed to making at the end of the fiscal period as the ultimate goal of accounting and constructs his system accordingly. As a consequence, the accounting records too often do not serve as an aid in administration, but only as a means of providing postmortem evidence.[15]

McKinsey's 1919 article concluded that accounting education had been oriented toward night courses for bookkeepers. Consequently, primary emphasis had been placed upon the creation of accounting records. When traditional universities began to offer accounting courses in day programs, the same teaching methods were used that had been followed for decades in the evening colleges. However, day students were different from evening students in that only a small percentage of the former were destined to be public accountants. Many of them went into business management. Consequently, McKinsey (and the University of Chicago) recognized a need for accounting courses that would emphasize the uses of accounting data, rather than the preparation of such data.

McKinsey was such an advocate of the managerial uses of accounting that he took every possible opportunity to speak on the subject. Once, when asked to address a group of CPAs on the subject of municipal accounting, McKinsey stated that even though the subject was supposed to be a discussion of methods employed by municipalities to record transactions, time pressures permitted him to discuss only the managerial purposes and uses of municipal accounting data.[16] The emphasis of the speech concerned the role of the organization chart as a starting point in designing a municipal accounting system.

In 1924, *Business Administration* and *Managerial Accounting* were released. Both of these works were pioneering efforts in the respective fields of business policy and management accounting. *Managerial Accounting* was the first of an intended two-volume set; however, the second volume was never published.

In the preface to *Managerial Accounting,* McKinsey divided the subject into the following seventeen major topics:[17]

I. The Need and Nature of Standards and Records

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II. The Organization for Standards and Records Control
III. Administrative Reports
IV. Sales Control
V. Purchasing Control
VI. Traffic Control
VII. Production Control
VIII. Personnel Control
IX. Plant and Equipment Control
X. Branch-House Control
XI. Investment Control
XII. Control of Liabilities
XIII. Expense Control
XIV. Financial Control
XV. The Financial and Operating Program
XVI. Proprietorship Control
XVII. Profits Control and Distribution

Volume One covered the first seven topics. Several chapters were devoted to each topic. The remaining topics were to appear in Volume Two which McKinsey expected to publish within one year.

The preface to *Managerial Accounting* stated that it was now time to organize the business curriculum into one coherent whole. McKinsey justified this philosophy with the following statement:

> If the accountant is to be of most service to the business executive, he must understand the latter's point of view, and be able to present data of such nature and in such form that the executive can use it in the solution of his daily problems. Unfortunately the accountant and the business executive often do not appreciate each other's point of view or understand each other's problems. It is hoped that courses of this type will help to eliminate this difficulty.[18]

McKinsey also stated the pedagogical assumptions at the University of Chicago:

1. that all students in a college of business administration should have a basic training in accounting as a part of a well-balanced business course.
2. that the primary purpose of such a training is to teach the student how accounting can be used in the solution of business problems.

> 3. that this purpose can be accomplished most effectively by giving the student (a) an appreciation of the business problems which are customary to the typical business unit; (b) a working knowledge of accounting techniques; and (c) a thorough training in the use of accounting and statistical data in planning and controlling business operations.[19]

McKinsey's viewpoint, and that of the University of Chicago School of Commerce and Administration, differed from that of other professors of the time. Historically, a working knowledge of accounting technique (the ability to pass the CPA exam) had been the primary objective of accounting education.[20] McKinsey pioneered the emphasis on using accounting data. Even the problems at the end of each chapter were unusual, in that they could not be answered by memorizing the text. Most problems and questions required the application of textbook material to new situations. Unfortunately, McKinsey's philosophy did not permit him to sell many books. Neither Volume Two nor a second edition of Volume One ever appeared.

McKinsey's influence on managerial accounting education did not end at this point. William J. Vatter confirmed that he did have a very limited contact with McKinsey by visiting his course for half the summer of 1935.[21] Vatter stated that he did know McKinsey's *Managerial Accounting* and was probably influenced by it. Vatter published his own *Managerial Accounting* in 1950 in a preliminary edition which was reprinted twelve or thirteen times through the late 1950's; it was never widely adopted or republished in final form because the author became too busy with other projects.[22] In the preface, Vatter wrote that the book was the:

> product of much experimentation, in efforts made at the University of Chicago, to determine how the need of present and prospective managers for an understanding of accounting could be met. Since the answer to this problem is only tentatively drawn, the work is presented here in preliminary form so that it may be tested in other classrooms . . .[23]

Thus, even in the late 1950's, managerial accounting education was still in its infancy; McKinsey was well ahead in publishing a text in 1924. Some similarities can be found in the books of McKinsey and Vatter. Both emphasized control. Secondly, Vatter also included problems and cases, many based on real life situations, to develop independent thinking and to prevent mechanical application of the procedures described in the chapters.

Thus, McKinsey influenced Vatter, who in turn taught Charles Horngren. Horngren has dedicated each edition of his book, *Cost Accounting: A Managerial Emphasis,* to William J. Vatter and acknowledges his obligation in the preface. The Horngren book has been the standard for modern managerial and cost accounting education, and this work can be traced back through Vatter to McKinsey and the University of Chicago.

Other Publications

The year 1924 marked a significant turning point in McKinsey's career as his interest expanded from accounting and budgeting to managerial accounting. He was later to move away from accounting as he developed his interest in management. After 1927, he taught only business policy courses and devoted the remainder of his time to his consulting work, to the exclusion of research and other faculty activities. He was one of the first professors of business policy in America. Before his break from accounting, however, he did author *Accounting Principles,* which was published in 1929. This book was the predecessor of the texts by Noble, Niswonger and Fess, now authored by Fess and Warren (fourteenth edition).

Much has been said of McKinsey's contributions to management consulting, most of it aptly summarized in *Management and Consulting,* by William B. Wolf. McKinsey severed all ties with the firm of Frazer and Torbet in 1925 in order to establish his own firm, McKinsey and Company.[24] The June, 1928 issue of *The Accounting Review* reported that McKinsey had cut back to two courses — Business Organization and Business Policies — because of his work as an organization counselor and accountant.[25] Prior to 1928, McKinsey's address had always been listed in the Association roster as the University of Chicago. The December, 1928 roster showed a change; the new address was 120 S. LaSalle Street, no longer the University.

McKinsey's consulting practice was quite successful. One of his former students recently told this author how impressed his students were with his success. It seems that McKinsey would have his chauffeur drive him to class, and carry his briefcase into the classroom. Following the class, the chauffeur would reappear, erase the blackboard, and then take his employer downtown to his office.

However, McKinsey never developed a school of thought or a group of followers. He preferred new challenges and thus made contributions in many areas without focusing on any one to the degree necessary to have his name associated with it. Wolf believes that the reason McKinsey was practically forgotten within twenty years of his death was due to McKinsey's attitude. His personality was not one to inspire love or discipleship.[26]

In 1935, McKinsey's firm was hired to conduct a study of Marshall Field & Company, following which he became chairman of the Board. He was soon able to turn Marshall Field's red ink into profit; possibly at the cost of his health. He died of pneumonia on November 30, 1937. His death went unmentioned in accounting periodicals, although obituaries did appear in some management publications.[27] The American Accounting Association at the 1937 annual meeting adopted a resolution mourning McKinsey's loss.

Conclusion

James O. McKinsey made contributions to accounting and business education in the fields of budgeting, managerial accounting, accounting principles, business policy, and managerial finance. He was fortunate to be affiliated with the School of Commerce and Administration at the University of Chicago at a time when that school was experimenting with a comprehensive approach to business education. McKinsey worked within the confines of that experiment and developed programs for both industry and education that are still in use today. He is also remembered as the former chairman of Marshall Field & Company and for the management consulting firm which still bears his name. This legacy was left by a man who died in 1937 at the relatively young age of 48.

McKinsey should be more widely recognized and appreciated for having authored the first budgeting book and the first managerial accounting textbook. Through his emphasis on principles instead of procedures, McKinsey was the first accounting author to base his writings on the uses of accounting rather than on its preparation. Indeed, McKinsey was one of those few individuals who have explored the frontiers of business research. His efforts in pushing back those frontiers have expanded the horizons for others who followed him.

FOOTNOTES

[1]Previts and Merino, p. 278.
[2]Zeff, p. 14.

[3]Zeff, p. 22.
[4]Scovill, p. 171.
[5]Yearbook, p. 96.
[6]Wolf, p. 1ff.
[7]McKinsey, 1922.
[8]Heyel.
[9]McKinsey, 1922, p. 4.
[10]Wolf, p. 18.
[11]Hopf, p. 501.
[12]McKinsey, 1922, p. 421.
[13]McKinsey, 1919, p. 763.
[14]McKinsey, 1919.
[15]McKinsey, 1919, p. 768.
[16]McKinsey, 1923, p. 81.
[17]McKinsey, 1924, p. xii.
[18]McKinsey, 1924, p. xiii.
[19]McKinsey, 1924, p. xi.
[20]McKinsey, 1919, p. 773.
[21]Vatter, 1984.
[22]Vatter, 1950.
[23]Vatter, 1950, p. v.
[24]"University Notes," 1926.
[25]"University Notes," 1928.
[26]Wolf, pp. 14-15.
[27]"A Management Engineer," p. 9.
[28]Scovill, p. 178.

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BOOK REVIEWS

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Frederic William Cronhelm, *Double Entry by Single* (London: Longman, Hurst, Rees, Orme, and Brown, 1818. Reprint edition, New York: Arno Press, 1978, p. xv, 377, $25.00).

Reviewed by
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Although today's accountant may feel somewhat overwhelmed by the volume of new pronouncements and regulations from the FASB, the AICPA, the SEC and other policy setting bodies, in fact business practices and accounting for business activities change very slowly. There have been few radical advances in procedures, and the double-entry system continues to govern accounting concepts. Recognition of the slowly evolving nature of accounting is confirmed by Frederic William Cronhelm's *Double Entry by Single;* however, somewhat in contradiction to the above statement, the accumulation of small changes over an extended period of time results in the 1985 product being barely recognizable as embodying the same basic concepts that controlled 1818 record-keeping.

It may be appropriate to compare the evolution of accounting methods to a 3 per cent inflation rate, with similar effect. The rate of change may seem modest or slow, but just as compounding $1 at 3 per cent for 166 years will produce a total of $135.20, the accumulation of changes in accounting methods produces a vastly different product in 1985 than existed in the early industrial era.

Cronhelm's book was published to promote a bookkeeping system devised by the author to shorten the "Italian method," in common use at that time. In justifying his own method the author describes very briefly then prevailing procedures. The book was obviously written for the accountant of 1818, and the author assumes the reader is familiar with the system in wide-spread use at that time. His explanations, therefore, are not sufficient to make clear to a modern reader just how a set of records of that date was constructed. Sample sets of records for retailers, wholesalers, manufacturers, merchants and bankers help rectify this problem. It is possible to decipher record-keeping procedures and the interrelationships among various account books by tracing the processing of transactions in these records.

The book attracted notice at the time it was published, but seems to have had little influence on later accounting theoreticians and writers. The failure to make a lasting impact may be traced to the novelty of its approach, or it may have been due to a misfortune that befell the publication. The publisher's building was destroyed by fire and nearly the entire edition of Cronhelm's work was lost. It was not reprinted.

Cronhelm was an accounting practitioner and a man of strong opinions. He believed that good records were essential to the survival of a business and expressed this view in an intriguing manner, as follows:

> "In the commercial world, few things are more readily admitted, or more generally experienced than the importance of bookkeeping. The ruin that rarely fails to punish its neglect renders it indispensable to the individual . . . ." (Preface v)

He was convinced that the system of record-keeping must be efficient and produce the desired results with the greatest degree of conciseness. It was in this area that he directed his efforts as a practicing accountant, and as a writer he described the method he had found useful in his daily work.

Unlike some of his contemporaries, who were exploring new approaches, Cronhelm was totally wedded to the double entry system. He maintained that there were no substitutes for the proofs afforded by this concept. He was further convinced that his "New Method" constituted a major advance in efficiency. In fact, his enthusiasm for his system resembles the sales pitch of the proverbial "snake-oil salesman," with the claim that:

> "The New Method excludes what is defective, and combines what is advantageous, in each of the others. It obtains by two entries the same results as the Italian System by four: it possesses the brevity of Single Entry without its imperfections, and the proof of Double Entry without its repetitions." (Preface vi)

Cronhelm's New Method did not achieve the quantum leap forward he envisioned but his basic premises were sound and he may be judged to have contributed to evolving accounting knowledge and methods.

Lawrence Robert Dicksee, *Fraudulent Accounting* and *Fraud in Accounts,* Edited by Editor of the Accountant's Library *The Accounts Journal,* 1924-1925, and London: Gee, 1904. Reprint edition, New York: Arno Press, 1980, Irregular pagination, $15.00).

Reviewed by
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The first part of this book is a reprint of a series of 12 articles by Dicksee on "Fraudulent Accounting" appearing in *The Accountants' Journal* from May, 1924 to April, 1925. The second part was actually published 20 years earlier as volume 30 of the *Accountants' Library.* The reprint edition is dated 1980, but the quality of production is poor, and at times even distracting.

The book is actually a treatise on internal control rather than fraud. Students of the subject will find the series of articles by Dicksee interesting reading, especially in the post Foreign Corrupt Practices Act era. While the advent of the computer and other technological changes have necessitated some change, it was striking to find that the internal controls advocated by Dicksee are, for the most part, applicable today.

Dicksee treats fraud in two broad categories: fraud connected with the receipt or distribution of monies and fraud aimed at "presenting accounts showing an unduly favorable position." He notes that the double entry bookkeeping system is a natural deterrent to fraud. The necessary "two-fold nature of the falsification at least doubles the chances of early detection."

The second article in the series contains Dicksee's views on the causes of fraud. One of the benefits of reading an older book is that it sharpens an awareness of the changing environment of accounting. For instance, Dicksee felt that the "motives that may deflect the two sexes from the path of honesty are not necessarily identical." The most common causes of dishonesty among men are listed as: (a) gambling; (b) extravagance; (c) drink; (d) actual poverty; (e) want of loyalty; and (f) want of moral stamina. For "women and girls . . . gambling and drink are much less likely causes of dishonesty than in the case of men and boys. Extravagance, upon the other hand, is probably in general a more real temptation, while actual poverty is more likely to be an existent cause. As regards loyalty: If it be the fact that loyalty is, in essence, a genuine understanding between employer and employed, it follows that a failure to understand the psychology of the opposite sex may have its real dangers. At present there is perhaps not sufficient data upon which to base a generalization. Time alone can show." Such views could be seen as sexist today and I doubt they would be published.

To control cash, several internal controls were recommended. Imprest accounts should be used where possible. When receipts come by mail, have at least two persons open the mail. The handling of cash and accounting for cash should never be assigned to the same individual. Payments should be made by check rather than cash and, of course, all payments should be properly vouched. In connection with payroll, it should be verified physically that persons receiving paychecks are actually employed. These among other recommended internal controls for cash might be found in a modern textbook dealing with internal control. For control of non-cash assets, a perpetual inventory system and gross margin percentage are discussed as primary controls. Again, while written in 1924, these discussions have applicability today.

Professor Dicksee overestimated the power of data processing. In accumulating mass transactions he noted that "if the business is of sufficient magnitude to justify the installation of a Hollerith machine or a Powers machine for the record of transactions, no trouble will arise over the accurate counting of these conventional quantities, whatever they may be." He apparently did not anticipate the advent of computer fraud growing from the use of successors to these early hand wired forerunners of the modern computer. The IBM and UNIVAC computer can trace their history back to Hollerith and Powers, respectively.

Professor Dicksee recognized the limitations of internal controls. "It is not to be expected that any system of internal check — or, for that matter, any system of audits — will provide an infallible means of detecting fraud skillfully concealed; it is submitted that the suggestions embodied in the series of articles will, if carried out with unwearying fidelity, go a long way to ensuring that detection takes place at the earliest possible moment."

Articles 9 through 12 in the series deal with the role of the auditor in relation to fraud. Long before court decisions such as Continental Vending and Yale Express, Professor Dicksee recognized that the role of the auditor in detecting and disclosing fraud may be much greater than defined by law, at that time the Companies Acts. The auditor's appointment, he observed, is based on a contract, and the express or implied provisions of that contract have to be determined before any opinion can be formed as to the limit of the auditor's responsibility. He discusses the necessity of an audit including subsequent events, a now commonly accepted audit practice. There is also a discussion of the need for auditor independence and how much reliance the auditor can place on the work of others. Both topics are relevant accounting issues today.

Professor Dicksee wrote the series of articles in a personalized and direct style. He did not mince words and his meaning is seldom unclear. At one point, for instance, in discussing the audit of companies holding stock in other companies, he states that when the auditor does not have access to the books of subsidiary companies "The whole purpose of the audit is accordingly defeated, and the audit itself is reduced to a mere formality, if not to an absolute farce." Professor Dicksee displayed a tendency to over use the phrase "in the nature of things"; while this might not have been apparent in a series of separate articles, it stands out when they are reproduced together in a single volume. This might have been edited out.

I found the book interesting and it provides a useful historical perspective on the issue of internal control. The second part of the book *Fraud in Accounts* is redundant, as it was an earlier treatise on the same topic.

Gadis J. Dillon, *The Role of Accounting In The Stock Market Crash of 1929,* Research Monograph No. 96. (Atlanta: Business Publishing Division, Georgia State University, 1984, pp. 270).

Reviewed by
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"There is a generally held opinion that accounting practices of the 1920s contributed to the stock market crash of 1929." This statement seems to support the regulations that emerged almost immediately after the crash. Some have concluded that accounting practices were part of the cause of the crash and that public accountants, as a group, were to some degree culpable. The essays of Professor William Z. Ripley published in the popular press during the early 1920s, and in 1926 combined in a book entitled *Main Street and Wall Street,* were aimed at publicizing the inadequacy of financial disclosure by listed companies. Thus, a few years later he was able to claim cause and effect. This relationship may still exist in the minds of many people.

The crash of 1929 is part of American business "folklore" and considered as the proximate cause of the "great depression." Dillon examines the economic, political and social environments in the United States from the end of World War I through the early 1930s. It becomes obvious that the decade of the 1920s was one of rapid transition from an agrarian, small town society to an industralized and urbanized one. According to Dillon, in many ways it was a decade of "future shock." In addition, negative characterizations of the "robber barons" by the press and anti-business novels such as *Babbit* added to the confusion of the changing times. Yet, it was a period of optimism, some of which was transferred to the stock market.

Part of the reason for the crash may be attributable to "the inability of stock market institutions to adapt quickly to the changes which occurred." An analysis of activity on the NYSE between 1926 and 1929 showed that monthly average volume increased by more than 400 percent. There was a mystique surrounding the stock market. However, later congressional investigations laid bare the various ways by which the stock market had been manipulated. Pecora stated that ". . . the Exchange was . . . a glorified gambling casino where the odds were heavily weighted against the eager outsider." Dillon examines pools and other forms of manipulation that mitigated against the Exchange being an impartial forum for the free play of supply and demand. He also presents some interesting insights about the speculation phenomenon and the catalyst of the bull market that preceded the crash.

The accounting environment, as reflected in the accounting literature of the era, is examined by the author. Four topical areas are discussed:

1. Financial statement preparation and content; disclosure
2. Net income determination and users
3. Asset recognition and revaluation; depreciation
4. Intercorporate investment; business combinations.

Also considered in this environment are professional organizations, common accounting practices and the role of the independent accountant.

It was during the 1920s that the conflict between uniformity and flexibility began to emerge. Eric Kohler was an early advocate of more detailed and uniform disclosure in public financial reporting. In addition, the NYSE was a major force in requiring improved disclosure from listed companies. This was to counter the defense mechanism embedded the rhetorical question of the time, "Does Macy tell Gimbel?"

Dillon summarizes very well the major attempts to establish some theory in the area of income determination during the first quarter of the century. The primary problems seemed to be how to handle the components of income beyond ordinary operating income, and the appropriate treatment of asset valuation. The section on the disclosure and consolidation practices for investment trusts and holding companies is most informative.

After setting the stage and examining the elements, Dillon summarizes the reporting and accounting practices used during the 1920s by a sample of 160 listed corporations whose stocks were actively traded on the NYSE. From the data used, his conclusion is that the "conventional wisdom" that the accounting practices during the 1920s were inadequate is not supportable. That is, accounting practices employed were not a major factor in the stock market crash of 1929. Statistical tests on the selected data tended to refute the hypothesis that relationships existed between attributes of accounting practices and stock price changes.

This is an interesting, well organized and primarily descriptive study of the factors which were potentially important to the 1929 stock market crash. Accounting was one of those factors, in the context of the time, and the chapter dealing with accounting theory is very well done. While the author makes a reasonable argument that ". . . there is not substantial evidence to support the contention that accounting was culpable in the stock market crash of 1929," his careful wording indicates that he is still not convinced that accounting practices were blameless.

Dillon provides a setting and tries to analyze data within that setting. While hindsight is unavoidable in making judgments, he tries to minimize the comparison of 1920s practices with 1980s standards. However, he is not always successful. The major lapse is the statement, "The accounting theory of the 1920s as expressed in the literature, was surprisingly sophisticated." Why should this be a surprise? These were intelligent practitioners, facing difficult problems and trying to arrive at logical solutions. They were indeed sophisticated. The monograph is easy to read and the subject has been well researched. I highly recommend it as a source of information and enlightment about accounting and business practices during the 1920s.

Hans Peter Hain, *Uniformity and Diversity.* (New York, Arno Press, New York, A New York Times Company, 1980, pp. x, 589, $50.00)

Reviewed by
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These two volumes on the development of accounting techniques contain a preface and an introduction, and dissertations on Accounting as a Process of Classification and Classification Concepts in Accounting Practice and in Treatises published prior to 1840 in Volume I. Volume II consists of a section on Classification Theories proposed between 1840 and 1936 and a section on National and other Uniform Systems of Classification since 1937 and their Antecedents, with a Conclusion. This volume also contains an Appendix consisting of fifteen Schedules showing various financial statements.

The Bibliography embraces 280 books and pamphlets plus thirty periodical articles. Although Bentley in his Bibliography (1934) listed forty authors whose works had been copyrighted between 1796 and 1840 and an additional sixteen whose books had been deposited, but could not be physically located at that time, Hain has not referred to these in his book.

In view of the method of reproduction, which appears to be offset printing from typewritten sheets, the text should have been more carefully edited. Words were incomplete, misspelled, typed over, pen or pencil corrected. These shortcomings as well as faulty reproduction of some pages make for difficult reading.

The book contains many quotations from Augsburg to Zerbi, embracing the years (of publication) 1435 (p. 149) to 1970 (p. 269), many in foreign languages. A reader would need to be multi-lingual to understand it and Hain's translators may have erred; witness the difference between Crivelli's "Treatise" and that of Geijsbeck (to which Hain does not refer). A specific example appears on page 93, where Hain quoted Crivelli in F. N. 1 — "even to a bootlace tip" which Geijsbeek did not translate.

In spite of numerous footnotes, the text introduced on page 107 (par. 2, line 10) Volume I the unfamiliar words "logismography" and "statmography" which had not at that point been identified. These words are not included in the Third Edition of Kohler's Dictionary nor in the Oxford Universal Dictionary. By persistent search, the reviewer found these theories discussed on page 300, Vol. II under Cerboni, 1872, and on page 336, Vol. II under Pisari, 1880.

Hain listed Pacioli as the author of "Treatise on Double-Entry Book-keeping" (.62, F. N. 3) but not in the Bibliography. He does not state that he extracted specific portions of Pacioli's "Summa" for reference purposes.

It appears that he relied on the translation by Crivelli. Geijsbeek's translation shows that Pacioli used Arabic numerals for the chapters (capitolo). It is to be hoped that this inconsistency is not common throughout. This applies also to F. N. 5, p. 62, Ch. XX (ch. 20).

Quotations are not always accurate, and at p. 106, F. N. 3, there are numerous differences between Crivelli and Geijsbeek. Moreover, on at least three occasions, Hain used the English (British) symbol £ (livre) for Italian lira (lire). p. 145, F. N. 3; p. 151, 1. 6; p. 152, 1. 4. The sum of £ 25,000 at the 1896* rate of U. S. $4.8667 would amount to $121,667.5 which converted to lire at $.174 (17.4 cents) on the same date would have amounted to nearly seven hundred thousand, an extremely large sum for those times, due allowance for five and a half centuries.[1]

Hain displayed a deficiency in his knowledge of book-keeping and accounting. On page 95 at line 21 he referred to "Pacioli's Treatise on double-entry *accounting* in 1494", which is incongruous, and on line 3 of page 96 can be seen a statement of Pacioli's treatise on European *accounting.* Page 207, line 3, referred to a "general theory of accoun*tancy",* but there was no such *profession* before 1854, when the Scottish accountants formed a professional society.

One of Hain's most significant comments is found on page 132: "Unfortunately, it has not always been possible to assess the relative significance of extant account-books, a fact, which must be recognized as a potential source of error because the material available from the earliest period of accounting is so meager that opinions have to be formed on the strength of only a few historical documents."

The work also contains numerous errors in syntax and tense. There are abundant instances where the author used the present tense when quoting authors long since deceased, and reverted to the past tense in the same paragraph. Such practices may be

[1]Quoted in *Monetary Systems of the World.* Around 1839 a lira was worth 15.92 cents, U. S. Currency. (Shea, *Book-keeping by Single and Double Entry).*

"literary license" but they make for difficult reading and interpretation.

William Holmes, Linda H. Kistler, and Louis S. Corsini, *Three Centuries of Accounting in Massachusetts* (New York: Arno Press, 1978, pp. [vi], 256, [12]; available from Ayer Co., Publishers, Salem, N. H., $27.50).

Reviewed by
Terry K. Sheldahl
Savannah, Georgia

This book was largely developed in connection with the seventy-fifth anniversary, in 1975, of the organization known since 1922 as the Massachusetts Society of Certified Public Accountants. The fifteen chapters were written independently by the late William Holmes (six), the two other listed authors (three each), Williard Stone, Anthony Krzystofik, and prominent Massachusetts accountant Ernest Berg. Much of the material had appeared in article form in the society's journal.

The table of contents divides the book into two parts, covering a variety of Massachusetts accounting developments from the founding of the Plymouth Colony in 1620 to modern times, including selected twentieth-century firms and personalities; and the history through 1970 of the state society. Holmes was the principal author of part 1 (oversimply titled "Early Massachusetts Accounting"), while his coauthors Kistler and Corsini wrote part 2. Given the disproportion in time periods covered by the two parts, and to a lesser extent in length of coverage, formal division of part 1 between seventeenth-century accounting (chapters 1-5) and subsequent development of the field (chapters 6-10) would have been appropriate.

The earliest material is divided about equally between the Pilgrims of Plymouth and the Puritans of Massachusetts Bay, closing with events occurring at the latter group's original settlement site shortly after the 1691 merger. Seriously hindered in the early days by poor record-keeping, the Pilgrims are shown to have later developed an impressive system of municipal accounting, including an audit process. Development of public budgetary and taxation systems amidst a predominantly barter economy is interestingly described.

In keeping with advance provisions made by the original English sponsors for regular audits of treasury transactions, the Puritans were account-conscious from the founding of their colony in 1630. Colonial merchants and officials were soon themselves engaged in broad public audit functions, commencing a process that would in Boston by the early 1700s embody surprisingly modern features. Covered also, largely through very extensive illustration, are the accounts of Massachusetts Bay merchants engaged in West Indian trade. Within such a colonial environment, it seems only fitting that the famous *witch trials* opened in 1692 in Salem, Mass., were 'well and truly "accounted for" ', and that "a large part of the [pertinent] accounts were duly audited" (p. 83).

Due to prevailing inaccessibility of archival material, treatment of the eighteenth century is by acknowledgement (p. 251) the weakest link in the book. Aside from extensions of prior topics into the early 1700s, it is largely limited to citation from an authoritative secondary source of numerous advertisements by Massachusetts teachers of double-entry bookkeeping and/or "merchants accompts'.' Holmes notes that three persons were listed as "accomptants" in the first Boston directory, dated 1789, but not that they were identified with different occupations in the second one.

Coverage of the 1800s is based mainly on careful study of Boston city directories over a period of population growth from 18,000 (1800) to 140,000 (1850) to 450,000 (1890), and remarkable commercial, industrial, and transportational development at both city and state levels. The three "compting room" references of 1810 are taken to signify some form of public accounting. By 1820 there were substantially more entries, and the terms "accountant" and "counting room" appeared, soon to be joined by the title "bookkeeper." Accountants by midcentury commonly used specialized books and columnar analysis sheets, according to Holmes, and recognized the role and importance of financial statements. Accounting for corporate business and capital assets basically still lay in the future, however, except within the emerging railroad industry, credited with a major role in the development of modern accounting.

During the period 1850-65, listed Boston "accountants" were few in number, perhaps because "bookkeeper" services had been upgraded by proprietary commercial colleges. Public accountants would reappear with the early growth after the Civil War of modern corporate business, particularly within the manufacturing area. Soon the first faint signs of professional accountancy would be observed in Massachusetts and elsewhere. Coverage of general accounting history in the state is concluded by two highly overlapping chapters (by different authors) profiling the three major accounting firms that developed in western Massachusetts, and the leading personalities associated with two of them. One of the individuals prominently cited, Edwin C. Doubleday, whose father (Edwin S.) had founded one of the firms and later earned the state's first CPA certificate, is reported to have been still in rather active practice in 1975, at age eighty-seven.

The final five chapters are devoted to the founding in 1900 of the "Incorporated Public Accountants of Massachusetts," and the evolution of that organization and its successors into the modern-day state CPA society. Development of the local CPA program, originating in 1910, is carefully reviewed in terms of entry requirements, the qualifying examination, ethics, restrictive legislation, professional development, and selected legal issues. Special attention is given to the pervasive influence exerted by the society.

Interaction of the state society with national organizations, particularly the AI(CP)A, is nicely covered, and useful references are made to some of its leading figures and to its involvement in civic and social activities. Building on references made by Holmes and Berg to early accounting instruction, Corsini in the final chapter briefly summarizes collegiate coverage of the field in Massachusetts since 1900.

By and large, the book is interesting, and fulfills the stated intention of combining "quality research with a readable format" (p. 1). The authors' judgment that "the chapters on 17th century accounting are particularly valuable" (p. 3) seems reasonable. Several shortcomings should be mentioned, however. There is some lack of unity and coordination within this collection of individual chapters contributed by six different persons, and, depending upon the author, footnoting is minimal or nonexistent. These defects are offset in part, however, by largely chronological organization and citation, usually, of major sources.

The identification made of "The first four [American] writers" of bookkeeping texts (p. 113) is seriously in error. For example, the Rev. Richard Turner, an Englishman whose book had appeared in a posthumous American edition of 1794, is cited as the second American author (1801). It is especially surprising that Holmes' undocumented author list is highly inconsistent with Boston bibliographer H. C. Bentley's standard listing. Erroneous reference is made also to a "9th edition" of John Mair's text *Book-keeping*

"Methodiz'd" published in 1817 (p. 107). The 9th edition of Mair's *Book-keeping "Moderniz'd"* did appear in 1807, but in substance it was at least the 166th numbered edition of the textbook series originating, under the other title, in 1736.

Certain stylistic or wording patterns are somewhat distractive. In most cases quotation marks are used unnecessarily within indented citations. The three chapters by Professor Corsini are marked by use of pompous or jargonized expressions, including "concomitant," "perforce," "halcyon," "neophytes," "venial," "disseminating," "ramifications," and (in capitalized form) "academia." In light of the authors' resolve "to guard against allowing their personal interpretations and biases to creep into the writing" (p. 255), Corsini also identifies himself unduly with the objectives of the Massachusetts Society. He uses the word "fortunately," without any qualification, in separately discussing several events that supported those purposes.

Following page 242, finally, the pages (at least in the review copy) are generally out of order. They are correctly numbered through page 256, however, and the appendices and book list that follow are properly labelled.

These blemishes are not serious. The book, whose title understates by fifty years the time span covered, is recommended both to accounting historians and a broader audience. At a personal level, it represents a fitting memorial to an outstanding nonacademic historian, Bill Holmes.

Gerard van de Linde, *Reminiscences* (London: Gee & Co. Ltd., 1917. Reprint edition, New York: Arno Press, 1978, pp. 434, $25.00).

Reviewed by
O. Ronald Gray
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This book is another in "The Development of Contemporary Accounting Thought" series published by the Arno Press. The book is a reprint of Gerard van de Linde's autobiography which was first published in 1917. Van de Linde was one of the original members of the Institute of Chartered Accountants in England and Wales, and was a prominent member of the English accounting profession during the latter part of the 19th century and the early years of this century.

Van de Linde recounts his life story in thirty chapters. Several of the later chapters consist of three pages or less. The events are presented in chronological order from the year of Van de Linde's birth in 1840 to 1916. However, the presentation is encumbered by numerous allusions to events and occurrences which happened either before or after the period being discussed. The book has a remarkable amount of minutiae about Van de Linde's travels and at times reads more like a travelogue than an autobiography. Van de Linde included in his book such superflous details as the fare schedule for taxis in Palermo, Italy in 1901, the complete verse to "Auld Lang Syne", verses from Act V, Scene 1 of Shakespeare's *The Tempest,* a chronological list of master-builders at the government shipyard at Bombay, India (1735-1867), as well as complete itineraries for all his travels through England, Scotland, Ireland, Western Europe, Egypt, America, Cuba, and India. Invariably, Van de Linde described the manner of his transportation, including the taxi driver's name in some instances, the cost of transportation and whether he considered it worthy transport. In addition, Van de Linde commented on the quality of his lodgings and provided his dinner menu with a judgment as to its cost and quality.

There is remarkably little discussion of Van de Linde's accounting practice. In contrast to the gratuitous detail provided about his travels, there is precious little substance when Van de Linde's business affairs are mentioned. Nothing in this book would support an assertion that Van de Linde made any contribution to the development of contemporary accounting thought, and from an accounting historian's perspective, he is of little or no interest. It is unfortunate that this autobiography was not allowed to fade into oblivion.

Christopher Columbus Marsh, *The Theory and Practice of Bank Bookkeeping,* Fourth Edition, New York: D. Appleton and Company, 1864. Reprint edition, New York: Arno Press, 1978, pp. viii, 292, $20.00.

Reviewed by
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The first edition of this book was published in 1856; the eighth and last edition appeared in 1884, the year Marsh died. Some years prior to the publication of *The Theory and Practice of Bank Book-*

keeping, Marsh had authored two other works dealing with single and double entry bookkeeping respectively. Each of the volumes also appeared in a number of editions.

This text on bank accounting was a departure from Marsh's earlier works in that it dealt with a specialized set of records applicable to a single type of business activity. Early 19th century accounting texts frequently stressed the fact that the systems they described could be applied to any business enterprise. However, in the latter part of the 1800s books began to appear which dealt with accounting systems designed for particular industries such as railroads, steamboats and banks. This work is an example of such a book.

The entire book takes the form of a long case study of the organization and operation of a fictional firm, The State Bank. The first twenty or so pages are entitled "Introduction" and form a review of basic accounting procedures. The first major text section consists of what Marsh calls, "The Routine of Business." This is a narrative account, on a day-to-day basis, of the activities of the bank from its founding, May 10, 1855, until the end of its first fiscal period, October 31, 1855.

The next section introduces a series of documents: The Articles of Association, Stock Subscription Record, By-Laws, and the Minutes of the Board of Directors including resolutions, votes and other business.

The longest section of the work presents the various accounting records, complete with entries and full details, to record the events described in the earlier narration. These include the Stockholder Records; Cash Disbursements Journal (maintained by the First Teller), and Cash Receipts Journal (maintained by the Second Teller); the Offering Book, a record of notes offered for discount; the Deposit Ledger; the City Collection Register, which shows the notes the bank has received for collection in its home city; a General Journal and a General Ledger.

Two additional sets of records are of particular interest. Marsh includes what he calls a Tickler. This is a listing, by due date, of the future payment of all the discounted paper held by the bank. This record is not part of the double-entry system, but would have been a useful additional record for bank officials.

The second record, which was a part of the formal system, dealt with the bank's activities as an issuer of bank notes. This book was organized by denomination of note, including not only $2 bills, but also $3 bills. The receipts of new, "unfilled," notes were recorded as debits. (Unfilled notes were those which had not yet been signed by the bank officers.)

On the credit side were amounts representing the distribution of the filled, signed notes to the first or Paying Teller. The balance of the account represented an inventory of available notes.

The accounting records conclude with a full income statement and balance sheet, prepared in account form. Of interest here is a closing adjustment made for depreciation. Marsh shows 5% of the original cost of furniture as a debit to income. This rate is used for the six month period of the case as based on an annual rate for wear on these assets of 10%. The rate was established by the Board of Directors. The entry is made in the General Journal as part of the closing entry for expenses. The offsetting credit is made directly to the asset account which is then shown net on the balance sheet.

The book is an impressive description of bank accounting practices, which no doubt accounts for its long press run. Unlike many accounting texts of the time, it provides no exercises for students. However, a careful reading would have given the student a good understanding of bank accounting. It is sufficiently comprehensive to have served as a valuable reference work for bank officials and accountants.

Accounting historians, especially those with an interest in the accounting for financial institutions, will find this book a valuable source of information on 19th century banking and bank accounting. Arno Press and its editorial board have made another excellent choice.

Francis W. Pixley, *The Profession of A Chartered Accountant* (London: Henry Good & Son, 1897. Reprint edition, New York: Arno Press, 1978, p. i, 272, $18.00).

Reviewed by
Hans V. Johnson
University of Tulsa

The Profession of a Chartered Accountant is a collection of nine papers written by England's Francis Pixley during the period of 1883 to 1897. The papers extensively cover what constituted due audit care in England in the late nineteenth century. The practice of law had a significant influence on auditing practice during this period and three papers cover bankruptcy, partnerships, and arbitration.

The first paper, which is the title of the book, was read before the Chartered Accountants Students' Society of London on September 29, 1885. The paper discussed the nature of work and responsibilities of the Chartered Accountant, and the preliminary, intermediate and final examinations of the Institute of Chartered Accountants. Although, in Pixley's words, many people considered an audit to be a "useless expense," experience had proven that "no doubt many frauds are prevented through a knowledge that the books of an employer are subjected to a periodic scrutiny by experts, the probability of detection being considered too great to be risked." (p. 7) (A similar conclusion was included in the Cohen Commission's *Report of the Commission on Auditors' Responsibilities* published in 1978.)

Pixley believed that the work of a Chartered Accountant was "not suitable to all intellects." Those who selected "mathematics for their principal study (at school or college) in preference to classics" were more most likely to "take an interest in the work of a professional Accountant." (p. 3) Pixley concluded his presentation before the students stating, "the initial work may be monotonous, but no duties fall to the lot of members of any profession which can be more varied or interesting than those of a Chartered Accountant." (p. 21)

Francis Pixley was a truly remarkable nineteenth century accountant and auditor. A careful reading of his book leaves one with the impression that were he alive today, he would understand and appreciate the problems faced by modern auditors. In writing their classic *The Philosophy of Auditing,* had Professors Mautz and Sharaf examined Pixley's papers, they would have found each of the basic concepts of auditing. Internal control is not discussed, however there are comments to indicate that ideas such as segregation of duties were recognized. (p. 76)

Writing in 1892 on financial statement audits of public companies registered under the Companies Act of 1862, he stated: "In the event of any inaccuracy being discovered later on, the directors and the officials of the company are first responsible to the shareholders, the only responsibility attached to the Auditors being their omission to detect any inaccuracy." And, the auditors ". . . are the agents of the shareholders and are accountable to them alone." (p. 25) One has to look hard to find a better explanation of an auditor's responsibilities for financial statements than that written on page 61. Pixley's explanations of accrual based accounting sound strangely similar to those of Paton and Littleton.

The three classes of accounting errors (p. 71), the example of *lapping* (p. 75), the sales cut-off (p. 79), documentary evidence from "independent sources" (p. 53), the auditor's certificate (p. 87), and explanations of various audit procedures all make for very interesting reading. Had the accountants in the *1136 Tenant's Corp.* court case followed Pixley's advice (p. 75), the fraud would have been uncovered early on.

I have cited just a few of the examples to which auditing instructors and their students can relate Francis Pixley's auditing papers to current practice.

Taken in the context of the time in which they were written, they are very insightful.

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DOCTORAL RESEARCH

Maureen H. Berry, Editor
UNIVERSITY OF ILLINOIS

Two themes have been selected for this review of recent dissertations: the issue of financial accountability, mainly discussed in the context of the public sector, and the conjoint development of technological, organizational, and labor structures in industrial settings.

Humma's study of Eric Kohler provides the lead, reminding us of the high priority he accorded the accountability function and the high moral standards it imposes. While we can but speculate as to how he would assess, and respond to, the recent triumph of user needs over stewardship as accounting's main preoccupation, his written records suggests that he would search for ways to bring these two concepts together in some fair combination.

What can happen to accountability when public management is contracted out to private interests is illustrated in Hoyt's study of the abuse of public power in New York City during the mid-nineteenth century. The New Yorkers took to the courts, forging the system of legal restraints in the public interest which is the hallmark of accounting in government today. In Lille, on the other hand, the French *bourgeoisie* took to the streets when faced with taxation inequities, forcing the town council out and looking for their own special interest protection. Still, as Bossenga points out, those were revolutionary times and the merchants and manufacturers ultimately gained their social advantages through public service rather than legal rights.

Taxation problems are taken up for the third time in Smith's study of experiments in Chinese public entrepreneurship during the Sung dynasty. Faced with an escalating defense budget and a drastic need for cavalry horse, the state hit on the successful notion of trading tea for equine imports. This approach raised prosperity all around and was only abandoned when the enemy blocked the export trade routes. So, the state was forced to return to the traditional approach of making cash purchases financed through taxation, with ruinous effects on the tea growers and taxpayers.

A much more favorable view of public financial administration is provided in Moders's examination of royal largesse by Henry the First, the youngest son of William the Conqueror, who reigned from 1100 to 1135. Using the oldest extant royal accounts, Moders noted and analyzed the various favors which the king granted as he strengthened and expanded royal justice.

Volk's study of minerals mining in Chile moves us out of the public sector towards the general issue of industrial development and financing during the period immediately before and after the movement towards independence which began in 1810. Exploitation of natural resources, and its financing, was left to the merchant financiers. They may well have met with more success had they kept to their traditional role of creditor, rather than acquiring equity interests and operating obligations.

The last two dissertations examine labor force structure during the industrial development of the late nineteenth century. Using available payroll records, Berglund traced the shaping of Sweden's industrial work force, noting the synergy with which structures of labor, management, and corporate organization interact as technology becomes more sophisticated. Lubar makes this same point in his research into talented personnel and textile technology in Lowell, Massachusetts. From this dissertation, we learn to appreciate the social and cultural contents of technological change.

An Examination of the Role of Eric Louis Kohler in the Development of the Accounting Profession (Georgia State University, 1983; Vol. 44/08, p.2504-A)[1] by Nancy Kay Adams Humma. Eric Kohler, as Humma acknowledges, was well recognized as "one of the accounting giants of this century". This professional respect sprang from a number of reasons: many of which were linked to the character of the man and the social concern which was part of him. Basing her research mainly on Kohler's writings, the author tells us about what Kohler did and what he thought, linking up her narrative to his varied influences on the evolution of accounting theory and practice.

Eric Kohler's record of public service extended beyond academe and his efforts on behalf of the American Accounting Association. He also held positions in government, including the controllership of the Tennessee Valley Authority, which involved him in the design of accounting-information systems to meet special needs. His constant concern, in both the public and private sectors, was that the

[1]*Dissertation Abstracts International,* volume and page references.

accountability function be recognized by both academics and practitioners. Educators and researchers, he urged, should be sensitive to the needs of the profession, breaking paths and leading the way for practice. Accounting principles developed from research studies should be conceptually based and clearly and unamgiguously enunciated. Otherwise, he posited, lack of precision or uniformity of terminology could provide a shield to protect the practitioner from the responsibility which he or she should stand ready to assume.

Awareness of the deep social obligations of accountants should be built into professional training and development. This was the conviction underlying Kohler's steady campaign for accounting practices which reflected concepts of social responsibility. Kohler's high principles and forthrightness shine through his writings, with their emphasis on simplicity of language, as well as transparency and comparability in the preparation and presentation of financial information.

Abuse of Power: New York City and the Formation of Municipal Law, 1846-1866 (University of Virginia, 1983; Vol. 44/11, p.3466-A) by Jeffrey Wood Hoyt. In New York City, an important phase in the evolution of governance and municipal law occurred during the two decades separating the 1846 constitutional reforms and the 1866 Metropolitan Health Act. This is because the fundamental changes which took place during this period in city politics, the perceived objectives of city government, and the nature of services provided to the public, shaped new local government legislation which was almost exclusively sparked by actions brought over public improvements.

The one factor which drove all these forces in combination was the city government's traditional policy of entrusting the management of public services to the private sector. As New York City government became more sophisticated and specialized, and with the growth of special-interest politics, the practice of farming out was not only preserved but intensified. As a result, there was an escalation of public works, with costs greatly exceeding benefits, which the taxpayers were required to pay for. The citizens, however, did not stand idly by. Although they lacked political clout, they could apply for redress to the courts. Consequently, there were widespread demands for legal enforcement of basic restraints on inordinate outlays through some system of procedural surveillance. This approach, however, turned out to be largely ineffective because of the facility with which checks could be circumvented, plus the fact that strict enforcement entailed acute management problems. Despite these obvious flaws, it was, nevertheless, commonplace for municipal judges to insist on strict observance of procedures: which brought about an unintended and important effect on municipal law. In short, the city government's prerogatives were eroded because of the fact that all parties to public improvements disputes; taxpayers, contractors, and city administrators, sought relief in the State courts.

The inability of the courts to find a solution to fairness in the efficiency and economy of local government administration led to an innovative arrangement. This took the form of the Metropolitan Health Board which was established in 1866 as an autonomous and impartial agency to take the place of the procedural curbs on the power of government. Thus, infrastructural change was as much due to irresolute judicial policy as to political considerations.

Corporate Institutions, Revolution, and the State: Lille from Louis XIV to Napoleon. (Volumes I and II). (The University of Michigan, 1983; Vol. 44/10, p.3138-A) by Gail Margaret Bossenga. This thesis traces the causal factors of the revolution which took place in Lille in 1789 when the town council, which was largely composed of nobles and property owners (*rentiers*), was taken over by merchants and manufacturers. What makes this event of historical research interest is the fact that it does not fit the classical model of a *bourgeois* revolution because in Lille, political liberalism was, at the same time, joined with economic conservatism. To understand this anomaly, Bossenga argues, one has to look at the relationship which existed between the state and certain privileged groups.

The dissertation contains nine chapters, beginning with a description of the environmental setting. The roots of the problem are exposed in the next chapter which looks into the effects of the council's policy of exempting certain privileged groups from taxes, although the municipal finances were being squeezed by increases in both royal tax levies and municipal debt.

The author then goes on to develop the thesis that the political liberalism of Lille's nobility can be attributed to their exclusion from political power which the *bourgeoisie,* on the other hand, were applying pressure to obtain. In the author's view, the revolution was brought on by the state's fiscal pressure upon a structure in which political power was closed. The financial basis was established for a consolidated state when the National Assembly assumed responsibility for municipal and corporate obligations.

The fifth chapter shows how the links between office holders in the *Bureaux des Finances* and the crown were adversely affected by the crown's fiscal policies. The town council was forced to use protectionist economic measures in order to protect its tax base, while the guilds, which regulated much of economic life, grew more inflexible as the crown's fiscal policies affected their operations. With the eventual suppression of the guilds, their regulatory activities were replaced by bureaucratic national regulation.

During the Napoleonic era, Lille's *bourgeoisie* still pursued economic protectionism but their social advantages were gained through public service rather than the legal title system of the *ancien régime.* Lille's example demonstrates that in the highly centralized state which the revolution created, local special interest groups sought to preserve their old privileges through the state's regulatory powers.

Taxing Heaven's Storehouse: The Szechwan Tea Monopoly and the Tsinghai Horse Trade, 1074-1224 (University of Pennsylvania, 1983; Vol. 44/12, p. 3776-A) by Paul J. Smith. Chinese trade and industry experienced enormous expansion following the transition from the T'ang to the Sung dynasty. This period was also marked by the emergence of an active and sophisticated bureaucratic state as well as consolidated and powerful steppe empires. These two factors converged together with state entrepreneurship in Wang An Shih's new policies of 1068-1085 when the state's taxing power was drastically expanded to finance increased defense spending. One of these policies, which is the subject of this dissertation, brought taxation for the first time to the Szechwan tea industry in order to fund the importation of critically needed Tibetan war horses for the cavalry.

The first three chapters set the stage by examining the major elements of the drama: the political economy of Szechwan, its tea industry, and the acquisition of the horses. The economic development of Szechwan is surveyed for several centuries, culminating with the eleventh century establishment of a centralized taxation system, which was facilitated by political understandings with elite groups. Smith's analysis looks at the expansion of tea growing and its consumption beyond the boundaries of the Szechwan area out to the coast and to the north, as well as the rise in importance of the southeast which led to the degeneration of the industry locally.

The three final chapters explore both the operations and effects of the tea and horse trading. The new heights to which tea production was raised not only provided adequately for supplies of horses but also generated profits for the state. Consequently, the state policy of making the Szechwan tea industry a monopoly for the benefits of horse imports through state exports was successful. However, disaster struck in 1127 with the Jurchen conquest of northern China which cut off access to the horse suppliers and wiped out the tea export market. As a result, the entrepreneurship policy had to be abandoned and there was a return to the traditional policy of taxation. This proved ruinous to the taxpayer: nor did it ensure supplies of the vitally needed horses.

Patronage and Justice in the Pipe Roll of 1130 (University of California, Santa Barbara, 1983; Vol. 44/12, p. 3773-A) by Stephanie Lleueen Moders. The only comprehensive account of royal income and expenses to have survived the Anglo-Norman period is the Pipe Roll of 31 Henry I[2] and Moder's examination of it throws light on Henry's policies with respect to favors and justice.

Henry the First appears to have been a generous monarch, judging from the almost 1,700 gifts, writ payments, tax exemptions, and pardons which are recorded for this year alone. About 20 percent of the income inscribed went for the benefit of some 700 persons, many of them Henry's closest friends and relatives. Also, favors were granted: about 50 percent of them more or less equally divided between seventy religious houses and 54 nuclear families. The religious patronage was most strongly motivated by tradition, whereas appeasement and rewards, rather than custom, prompted family gifts. Because of their vested interest in maintaining good relationships, it is hardly surprising that families were rarely hostile to their benefactor: at least overtly. The patronage network also gained strength through marriage and property ties.

While the roll does not contain the proceedings of the court of the Exchequer, it does include details of financial verdicts. In analyzing the patterns of fines imposed, pardoned, paid, and left owing, Moders concluded that Henry was a more liberal monarch than he is given credit for elsewhere in the literature.

The number of writs which undertenants and tenants-in-chief purchased in this particular year discloses a hitherto unrecognized amount of royal mediation in property disputes. In summary, both royal justice and royal patronage was extended widely but with the degree of centralization to be expected when no difference was

[2]That is, the roll for the 31st year of the reign of Henry the First.

recognized between the person of the king and his status as the monarch.

Merchants, Miners, Moneylenders: The Habilitación System in the Norte Chico, Chile: 1780-1850 (Columbia University, 1983; Vol. 44/08, p.2552-A) by Steven Saul Volk. The significant growth in minerals production which occurred in Chile over the turn of the nineteenth century provides the setting for Volk's study of the general issue of development and underdevelopment. In addition, he was interested in how the commodity and credit markets were developed before they were institutionalized by the state.

The first three chapters of the dissertation provide a general review of selected topics related to mining and development, describe the growth of the Norte Chico; the desert area of the far north with its rich deposits of sodium nitrate and copper, and a look at industry structure. The following three chapters describe how industrial growth was financed, being largely based on the *habilitación* system. The *habilitador,* or enabler, played a key financing role at the beginning of the nineteenth century because no support from the state was made available and without credit producers could not start up operations. Consequently, it was through private initiative that Chile was linked to the world demand for minerals. Credit extension became widespread and an informal network was created by the various creditors. In time, creditors began to adopt the role of mine owner and, by 1850, Chile's most productive mines were controlled by the merchant financiers.

This shift to equity ownership does not automatically signal profitability in mining ventures. Although mining was a growth industry, it operated under archaic conditions and the *habilitador* owner was caught between the conflicting demands of mining operations in the north and the large mercantile activities in Valparaiso in the center.

To provide additional understanding and perspective, the final chapter examines the general picture of Chile's underdevelopment. Volk feels that the one most important causal factor was the class structure of production. This system was kept in place by the dependent status of Chile's relationships with more developed economies.

Industriarbetarklassens formering. Arbete och teknisk forandring vid tre svenska fabriker under 1800-talet (The Formation of the In-

dustrial Working Class. Late 19th Century Labour and Technical Change at Three Swedish Factories) (Goteborgs Universitet, 1982; Vol. 45/01, p.31-C) by B. A. Berglund. This study was undertaken to track the development and structuring of the Swedish industrial work force during the nineteenth century. Using extant payroll records as the main data base, Berglund examined the labor history of about 4,000 employees from three companies: each in a different branch of industry. Because of the heterogeneity of production organization in these different enterprises, richer profiles of the separate labor groups, from the standpoint of structure and composition, were achieved than, say, limiting the sample to a particular industry.

Berglund's basic assumption was that objective change in working conditions through production reorganization was the primary determinant in the forming of the industrial working class. The main research objective was to learn whether the process of industrialization in manufacturing industries also brings about innovation in the make up of the work force. So, the dissertation starts with a study of technical development at each of the three work sites in order to identify the factors motivating their mechanization, before going on to look at the process of work reorganization.

The introduction of mechanization into a plant has its initial disadvantages. First of all, skilled labor is immediately required to handle the equipment as well as repair it if need be. This latter ability is critically important because breakdowns during the shakedown period are a particular cause of bottlenecks in production. The early pool of skilled workers constitutes the labor force's aristocratic base. Given experience in the use of machinery, the aristocrats can become trainers and a semi-skilled labor force starts to take shape. From the sample, it was found that the three sets of workers at the different plants increased in homogeneity as the semi-skilled base grew. The perceived benefits for the owners from this structural change were increased independence from the craftsmen together with increased control over work and production. This, in turn, affected enterprise management structures which gradually became hierarchically organized.

In the final chapter, Berglund takes a more global view of the qualitative changes which took place at the work sites in the second half of the last century. Factors contributing to these changes include the use of female and child labor, the number of working hours, and work intensity and discipline. These same elements also help to explain the development of the trade union movement.

Corporate and Urban Contexts of Textile Technology in Nineteenth-century Lowell, Massachusetts: A Study of the Social Nature of Technological Knowledge (The University of Chicago, 1983; Vol. 44/11, p. 3467-A) by Steven David Lubar. The New England textile industry provided the initial setting for corporate control of technology in the United States, and innovative technological and corporate approaches first found expression in the city of Lowell which was founded to take advantage of them.

Lubar's dissertation is divided into two parts, the first studying the large Lowell mills and the second expanding the scope to the city in general. The balance of power between the owners and managers is analyzed by looking into the backgrounds of these two groups, the nature of their activities, and how the mills were managed. The nature and role of the overseer is then assessed because it is at this management level that labor is linked with mill technology. The third chapter is devoted to mill accounting. Lubar found that accounting practices directly influenced mill decisions and this linkage spilled over into the plant technology.

Part II starts with a review of Lowell's pool of innovative talent. Some 130 inventors of textile machinery were available in the city and chapter four concerns itself with how they were trained and employed and how their 266 patents were used. Innovation is dealt with as a separate topic in chapter 5 which focuses on the city and its location, why it was founded, and why so many small textile machinery companies were successful there. The research is synthesized in the concluding chapter which examines the nature of technology itself. Typically, modern technology is a product of corporate control and urban conditions. Through examining its social and cultural contents by drawing on Lowell's experience, Lubar has learned to appreciate technology as "a type of social knowledge" fixed in its environmental setting.

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