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Accounting Thought and
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THE ACCOUNTING HISTORIANS JOURNAL

Semiannual Publication of The Academy of Accounting Historians

Volume 12, No. 1 **Spring, 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.

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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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Ernest Stevelinck
BELGIUM

ACCOUNTING IN ANCIENT TIMES[a]

Abstract: Studies by French scholars of ancient Egyptian and Babylonian records purport to describe accounting methods in use over two thousand years ago. The number of documents translated and analyzed is too small to justify such generalizations. The interpretations of the records is doubtful, due to the very different economic environment in which they were created. In any case, there is little of interest to the present-day accountant in the study of primitive and obsolete accounting practices.

Egypt has had a long accounting history. Thousands of accounting papyri have been discovered, extending over fifteen centuries, that reveal the state of the art more than three thousand years ago, with some degree of clarity.

However, in an article originally published in the *Bulletin of the Institute of Accounting Historians of France* in 1978, which reviewed a dissertation submitted for the doctoral degree at the University of Lyons by Mounir Megally in 1971, I tried to turn young dabblers in accounting history away from studies of the ancient world. The first part of what follows is extracted from that article.

> "At that time, at the beginning of the New Kingdom, the scribe My, manager of the great granary Tjenouna, recorded with his calamos reed the day's transactions, some in black and some in red.
>
> "My was a respected manager, and his assistants worked efficiently, giving him time to observe the Nile, that generous river, and its many ships transporting goods to and from his stores. He knew the owner of every ship by name, and loved to converse with them. Amenmes, Nebouaou, Pennoub, Saamen and Touy all reported to him news of their respective nomes. And when one of the boatmen grew too old to sail his ship, his son replaced him at the helm: Ahmes, son of Iry, or Baka, son of Nechi.

[a]Translated by Kenneth S. Most from "Comptabilité des Temps Anciens," *Revue Belge de La Comptabilité et de L'Informatique,*" 1983.

"From time to time, My received visits from his superior, the Vizier Rekhmire, who checked the amounts of taxes owed, and remitted them to Pa-Mou-Ha or Ioumitrou.

"My's colleagues included the scribe Nebseby, a close friend, and the scribe Hapou, manager of the great granary at Minnakht, mistrusted on account of his autocratic manner. Quantities of grain delivered to Minnakht were checked four times, that is, by four assistants, who also verified the quantities of dates received in exchange. Date deliveries always arrived late and in small amounts, whereas My had to supply his colleague regularly and promptly. Hapou claimed that he was ensuring that the dates were fresh. They were probably heavier than they would have been if he had allowed them to dry, thereby permitting him to send a smaller quantity. Perhaps he enjoyed the opportunity to descend more frequently from his hot and dusty hill to the banks of the Nile.

"In this way passed each of the thirty days of the four months of the three seasons Peret, Shemou and Akhet, that constituted a year.

"This evokes a picture of that accountant of long ago who, after having sharpened his calamos reed, dipped it in ink and, in his beautiful hieratic writing, recorded the following.

Year 32, 1st month of Shemou, eighth day Grain given to the House of the Divine Adoration	Khar 39 1/4
1st month of Akhet, first day, given to Qouft from the grain of the chief treasurer Sennefer—grain measured four times	Khar 187 2/2

"Obviously, the Louvre papyrus E 3226, consisting of 61 pages glued together to form a roll measuring 4.445 metres in length, is full of poetic images. We can therefore understand why some twenty Egyptologists have been sufficiently interested in this papyrus to write their commentaries on the central administration of granaries during the XVIIIth dynasty that extended from the 28th to the 35th year of the reign of the powerful ruler Thutmose III. Originally in the Anastasi collection, this roll was purchased by the Louvre on June 27, 1857. It has been cut in two at the middle, at a place devoid of inscriptions.

"Yet from the viewpoint of the accounting historian, I believe that this papyrus is of no use. Its beginning is so damaged that the first page contains only one word and a few figures, and the end is equally defective. It contains accounts, but not accounting, and the accounts themselves are incomprehensible. In one place we note "Balance due, Khar 34 2/4" without being able to establish how this balance was calculated, and in another, "Total: Khar 2065 1/4" without knowing which figures add up to this amount.

"The text of fragment A, front and back, stops just before the middle of the roll, and the text of fragment B, front and back, starts just after the middle. The two texts, although different, were written at the same time. They record reciprocal exchanges, dates against grain and vice versa.

"Admittedly, text A records on its front side, grain issues, and on the reverse, grain receipts, whereas text B records receipts of dates on its front, and issues on the back, but the entries do not correspond exactly to this accounting logic. Some counterpart entries are identifiable, others not. But what interest can an accounting historian have in attempting to solve this puzzle? These accounts appear far too distant from us. They may be admissible, but what can we learn from them that will be of use to us professionally? Surely, we should attempt to discourage students from learning techniques that are out of date.

"If we could discover a complete set of accounts it would be very different, but one account does not make an accounting system. Accounts have been kept since time immemorial, but double-entry bookkeeping goes back less than 1,000 years. In the last analysis, it is this system that really interests us, because it is still in use, and because it would be instructive to examine its origins, to follow its evolution step by step, to identify progress, the path it took, the tentative innovations of our predecessors, the solutions they arrived at."

In a subsequent (1980) issue of the *Bulletin,* when examining Gardascia's research on the Murashu [Gardascia, 1951], I made this point more explicit. "We should not start by studying the accounts of the ancient world. From a chronological viewpoint, this makes sense. From a didactic viewpoint, however, the accounts of the ancient world tell us very little, the economic environment then having been so very different from our own that no valid comparisons can be effected." I quote from this second article.

"When we read in *Banking through the ages* by Dauphin Meunier, who is nevertheless an author of considerable merit, that Murashu, founder of the bank, belonged to one of the highest castes of the Babylonian aristocracy, and that, by means of his intelligence and power he so distinguished his name that he was raised to the rank of "generating ancestor," of Banu, that is to say, son of ancestor, true title of nobility, and that we possess the correspondence, accounting documents, and most of the contracts of his firm, that appears to have been, for nearly a century, the economic dynamo of central Babylonia, etc. etc., we should remember that this story goes back 2,500 years, and that we have very little information that would permit us to retrace, for our understanding, the living conditions then existing, which differed so radically from our own. Let us look a little closer.

"In 1893 an American expedition discovered, on the site of Nippur (Nuffer), in a room approximately 5 metres by 3, seven hundred and thirty baked clay tablets, the oldest of which goes back to 455 B.C. and the most recent, to 403 B.C.

"Thousands of clay tablets have been found on Babylonian land. The library of the temple of Bel, discovered in 1900, alone contained 23,000 tablets from the twentythird century before our era. The Nippur discovery was therefore not exceptional.

"What became of the Murashu tablets? Most of them are in the Archeological Museum of Constantinople, some are in the museum of the University of Pennsylvania, others in the possession of the University of Jena, yet others lost to private collectors. [Gardascia, 1951].

"I do not believe that, as Dauphin Meunier writes, "the considerable collection of these texts was published in its entirety by Clay in 1912" (he actually published 228, to my knowledge), for the following reasons.

1. The collection has been dispersed and many tablets are no longer open to inspection.
2. Some of the texts are damaged and illegible.

3. Their translation is a long-term project, undertaken by several teams of scholars. Some authors have provided commentaries on four, 24, 60, even 95 tablets. Study of the texts continues.

"It is no simple task. They are written in Akkadian, the language of one of the Semitic peoples who founded Sumer, a dead language for many centuries; even in Sumer the spoken language was Aramaic, although Akkadian was used by notaries. First, the cuneiform writing has to be deciphered, then translated. Entire phrases escape logical interpretation [Gardascia, p. 19]. Others are of doubtful meaning.

"What are these documents? Acknowledgments of indebtedness (almost one third of the total), receipts and contracts, most of the latter being leases. Debts are obligations in kind; dates, barley, beer, bricks, sheep, wool. They were usually payable in the vicinity of the debtor's land. Dates seem to be used instead of money. A farm rent, for example, was paid in dates, and taxes likewise. What did the "banker" Murashu do with all those dates? He must have resold them, but we have no evidence of that.

"Some debts were expressed in silver, bullion and not coin. They were measured in minas, a unit of volume equivalent to about 500 grams. If interest is stipulated it is payable in shekels, weighing about eight grams each. On a monthly basis, two shekels of silver for each mina borrowed. But payment could also be made in dates.

"The receipts relate to payment of rents, taxes etc. They each contain the words, among others, 'So and so has received, it has been paid.'

"Finally, the contracts are a little more interesting, because they are in the form of a dialogue. A typical lease might read:

"The lessee X, in the happiness of his heart, has spoken thus to the lessor Y: give me your land T situated at such and such a place against a farm rent for N years [usually three]. Every year, I will give you a certain quantity of barley (wheat, spelt, peas, vetch, sesame, millet, garlic, onions). Following which Y has agreed and given him the land T for N years. Every year, X will give him that quantity of barley (or other produce).

"Leases were often more complex than this, and animals, agricultural implements, seeds, and buildings could be leased separately from the land.

"Contracts for services were similarly presented.

"X, in the happiness of his heart, has spoken thus to Y: give me 100 pots, 6 vats, two workers (and other items needed for brewing) and I will do this. In such a month, I will deliver to you 100 pots of first quality sweet beer. Y has agreed and will give him the needed quantities of products and number of workers. In such a month Y will receive 100 pots of sweet beer.

"In the light of all this, can one justify the dithyrambic style in which some writers have compared Murashu with a Fugger, a Medici, or a Rothschild?

"Who was Murashu? The ancestor who gave his name to the firm. Nowhere does he appear as a living person, an economic agent. His grandson, Rimut-Ninurta, adopted the trade name of Murashu; it means "wildcat." [Gardascia, p. 9]. Sometimes the operations of the firm suggest those of a businessman, sometimes those of a financier or tax farmer. The situation is complicated by the fact that the Murashu are never described by any title in the documents.

"They operate farms and pay taxes. Sometimes they lend money, or pay a customer's debt for him. But they do not appear to have changed money.

"Before treating them as financial intermediaries one must first recognize that the capitalists of the period entrusted them, not with money, but with land, that Murashu promised to make fertile. What kind of bankers are these, who do not exchange money, who play no role in international trade, who do not participate in the industrial activities of their country, and who do not invest in merchandise?

"Was the House of Murashu simply a mortgage bank, financing agricultural land and buildings? [Gardascia, p. 196]. A business that served as intermediary between landowners and farmers, that divided properties up and rented them to tenants, intervening between the lord of the manor and the one who tilled the soil?

"Conclusions:

1. The Murashu tablets are of obvious interest to

assyriologists, philologists, history professors, and even legal historians. But they serve the accounting historian only by improving his general education and cultural background.

2. I believe that the significance of the House of Murashu has been exaggerated. There must have been many similar firms in the vast empire of Artaxerxes and Darius, whose records have disappeared without trace."

These narratives, based on texts recovered from antiquity, exert upon scholars an irresistible attraction. This may be due to their foreignness, or possibly to the fact that the writer can exercise his imagination to the fullest, without fear of contradiction. It has been suggested that the objective is not so much to study accounting methods in ancient times as to convince the reader that such techniques existed, and to describe their essential features.

In the meantime, Mounir Megally has published his illustrated study of papyrus 3226 [Megally, 1977].

Discussing the development of bookkeeping method, he indicates a fact that is still valid at the present time: that the records are always big to start with, but their format tends to diminish subsequently.

During the Old Kingdom, according to him, the papyrus rolls were between 21 and 24 cm. high. At the time of the New Kingdom they measured only 18 cm. Their width had been reduced proportionally so as not to reduce their usefulness. The reduction in size corresponded with a simplification in the classification of accounting data.

At the beginning we find large pages with multiple columns, containing many blanks, while the accounts are burdened with a quantity of phrases, in black and red. Subsequently we see a reduction in format and a simplification of recording technique, proof of a process of development. The horizontal line unifies the composition. Writing is reduced in size, and explanatory text abbreviated. The accounts, originally occupying the two sides of the document, finally appear on one page of papyrus, as consecutive sections or separate columns.

During this period the lunar calendar (360 days, corresponding to the 360 degrees of the zodiac) was replaced by the solar calendar of 365 days, which added five extra days to the twelve months. The use of red ink was rationalized for the purpose of distinguishing items written in the accounts using black ink, for example:

—different deliveries (barley or wheat)
—payment in corn and in another commodity expressed as so much corn

Finally, classification is simplified, accounts are less detailed, there is a strict minimum of data. For example, at the time of the New Kingdom there would be two separate accounts for the delivery of wheat to two different bakeries, which obviously avoided the need to specify for every entry which bakery was involved.

The accounts demonstrate not only a precise technical vocabulary, but also a peculiar jargon and special terms, the development of which can be studied. The bookkeeper no longer transcribes the complete date against each of a series of operations executed the same day, replacing it, as in our times, with a "ditto," more precisely, the hieroglyphic sign that means "on this day."

They even had a special sign that indicated "something missing" —"balance due"—or, textually, "what remains to be collected," for the amount demanded was frequently more than the amount received, leaving what we would call a difference. A balance receivable may be translated as "what remains in his hand" and later by the abbreviation, "remains due" or "in his hand."

Inventories were called "lists." The balance of the account would be struck from time to time, the word account being a synonym for calculation, for only by means of a calculation could the bookkeeper establish the difference between two totals. Balancing took place at the end of the "period" but the length of the period varied greatly. It would appear from the observation, that there was only one audit per period, that one waited for the accounts to be verified before closing the books.

Sometimes, however, the books were closed after a particularly important transaction, doubtless to observe the fact and to determine its effect on the result. Some periods extended for more than a year, which may have been due to the difficulty of putting together all the details of transactions executed a long way away.

End of year balances were rare, but what was the significance of the year in those days? Recall that in Egypt there were three seasons—winter, summer, and floods—of four months each, the month being divided into three times ten days; years were "years of the reign of King X" and started on the day of his coronation. This had the effect of modifying the order of the seasons embedded in the year, the same season finding itself at the beginning, in the middle, or at the end of the year, depending on the day the king was crowned.

The year—Xth year of the reign of King Y—was always recorded in black, month and day being written in red. The full date had to be recorded at the beginning of an account, and of each page, and of each reign, which has the advantage of permitting us, thanks to accounting, to date the end of one reign and the start of a new one, the king's name being always given.

There are even examples of bookkeeping style evident in official, literary, and legal texts, where the same word could mean assemble, group, accumulate, heap up, or pack together.

When Megally speaks about Egyptian accounting on the basis primarily of papyrus E 3226 of the Louvre Museum, he refers to the New Empire. What could have been the concepts and techniques of the scribes of the Ancient or Middle Empires? To answer this question we examined a thesis by Paule Posenar-Kriger entitled "The Archives of the Funerary Temple of Neferirkare-Kakai." [Posenar-Kriger, 1976.] First, let us describe the place itself.

Seen from the road that goes from Giza to Saqqara, the three pyramids of Abou-Sir, their coverings gone, look like three large heaps of sand. The biggest of these unlovely ruins is all that remains of the pyramid of Neferirkare, then comes Niouserre, and the smallest, Sahoure. The funerary temple, now completely ruined, lay to the east of Neferirkare. It functioned for more than two centuries, according to the history contained in records that have been recovered.

Neferirkare, king of Upper and Lower Egypt, was the youngest son of the Royal Mother Khentkaous, descended from Mykerinus or Cheops. He owned many buildings, starting with the Royal Palace in which he showed himself to the public in all his glory, and including the "Residence," a vast cultivated domain that assured the subsistence of an entire people. During his lifetime, following the example of his predecessors, he endeavored to create a solar temple equipped with an obelisk and a chapel for the goddess Hathor, and not far from there, a pyramid in the "city of pyramids" with land attached for a funerary temple to be erected in his honor when, after his death, he became a god.

Although he disposed of only a little space in the "city of pyramids," he constructed his solar temple in honor of Hathor, who the Greeks identified with Aphrodite, and the funerary temple for his own use. The solar temple, of which nothing remains, must have been situated on the banks of the Nile, for there was the bulk storage of the food destined for the other temple, which stood not far from the Memphis canal (a branch of this canal led directly to a terrace of chalk-whitened mud to which the temple opened.)

The Royal Mother Khentkaous having just died, her youngest son decided to build her a chapel in his own pyramid, permitting certain rites to be performed for her. But Neferirkare himself died before completion of his temple, which was completed by his successors—pious but economical, says the author—with rough bricks. The columns that supported the roofs were of painted wood, in the form of lotus stalks.

The royal foundations survived their founder for quite a while, thanks to the lands that supplied the temple, originally conceived more for the religious practices of the deceased king than for his burial. The temple had many employees, as many as 300, divided into "phylums" or sections. The phylums consisted of individuals of very different rank, that changed monthly.

Among them could be found all social classes, from vizier to boatman, and including the king's chargé d'affairés, several attachés from the palace, the religious chancellor, funerary and liturgical priests, the scribes, their director and supervisors, a judge and his clerks, administrators of all kinds, the chief of the guard, the head of the weaving shop, the head doctor, hairdresser, musician, archivist, storekeeper; and below them, clerks, weavers, hairdressers, barbers, pedicurists, dancers, singers, flutists, keepers of the archives, custodians of the oil, laundry workers, farm workers, cooks, keepers of the sacrificial animals and of the domestic animals, meat porters, soldiers, oarsmen, and so on and so forth.

All must be fed; for this reason, those who erected funerary temples had to assign lands to assure supplies, and even profits, after their death. Thus, the royal funerary temples were a part of daily life, and had great importance to the living, as well as contributing to the economy of the country. But eventually they became a part of that economy, with limited autonomy. If, at the beginning, the deceased king was entitled to a certain number of units of output, or a certain percentage of the revenues of the estate, eventually his rights had to give way to the claims of his successors. There was a determinable relationship between the estates created by deceased kings and those of their successors, for we see that foodstuffs imported by and stored in the temples were partly distributed, on a daily basis, to other temples in the surrounding area. There were transfers of offerings between neighboring tombs.

Temple revenues, quite high when they were first established, diminished progressively in the years following the king's death. Foundations established by deceased kings contributed increasingly to the needs of the funerary temples of their descendants.

Some of the cults eventually died out. As long as the funerary priests, having known the god, could celebrate their joy, all went well. Their material needs being provided for, they were willing to prostrate themselves before the five statutes of the god. As long as their future was assured, they could conduct the sacred rites: once a month they would disrobe the statues, clean the garments that covered them, thus enjoying the moment of invisibility, the revelation of the divine visage; then at the time of the new moon, clothe them again, and trim and perfume them.

These servants could not have been fatigued by their tasks. It has been calculated that some of them worked very little, and that all took it fairly easy. A dead king is not too difficult a master.

When the "Residence" was destroyed, however, or encountered a period of famine, the temple was not supplied. No food, no priests. There were no services, and the temple was deserted even by those whose job it was to guard it. The doors were sealed and the entrance walled up. That is what happened to the funerary temple of Neferirkare. The children of the servants and the priests took shelter under the overhang of the courtyard, between the brick walls, in the kitchens . . . and the detritus accumulated. Finally, the land around the pyramid became a cemetery for the poorest class. And time passed . . . .

From time to time a thief, a vandal, or a scavenger visited the place and removed anything that appeared at all valuable. But no one had any interest in the scattered papyri. Not until the nineteenth century and the taste for Egyptology that followed Bonaparte's expedition. About 1893, a lucky shovel uncovered papyri buried in one of the caves. Museums secured these fragments. In 1907 an official expedition of the *Deutsche Orient Gesellschaft* put an end to the research, and the manuscripts—pieces of papyrus scrolls—were distributed to the British Museum, the Louvre, and other museums in Cairo and Berlin. Those that went to Berlin can now be found in both the east and west sectors.

We believe that these are the oldest papyri known to man, from about 2,390 B.C. They have survived through more than 4,000 years —the celebrated forty centuries mentioned by Napoleon. They cover a period of two hundred years. Unfortunately, not one scroll has been found intact. What can one learn from them? First, part of the history of the preceding period. Secondly, thanks to the dates, an impressive sequence of names of the kings of the Ancient Empire—Izi, Isesi, Chepseskare, Niouserre, Ounas, Merenre, Ikhoukor-Ankt, Tetio, Pepi I and II, and, of course, Neferirkare-Kakai.

Nevertheless, the problem of deciphering these texts is enormous. Some are palimpsests and traces of the parasitical writings can be seen on the verso side. There are also erasures and corrections. Many parts are missing because of tears in the papyrus. Certain writings must be read against a light, because of swelling of the surface, or by means of infrared photography.

Not only is transcription uncertain, but interpretation also. Even when the words are clear their exact meaning escapes the reader. The author of the thesis confesses that "a whole series of documents is absolutely incomprehensible to me, either because I cannot read or cannot understand the headings that relate to the figures." For example, she asks herself in respect of one passage whether it refers to men purified in order to be in the temple, or to the temple itself, cleaned for the rites.

However, because a large part of the archives consists of accounts, they are of interest to us. All these accounts are in the form of tabulations

—personnel records, stating that a particular functionary did—or did not—do a certain task.
—records of deliveries from different places, or estates, such as the Residence, the sun temple, the house of the Royal Mother, the house of the royal son, some of which were clearly under the control of the funerary temple of Neferirkare, granaries and units of the central administration.
—records of receipts from individual suppliers of the temple, including tithes and other offrands.
—lists of food distributed, either to living persons or the dead.
—inventories of bread, cakes, crocks of beer or wine.
—inventories of livestock. These show the sacrifices that took place in the field, notably of geese, ducks and pigeons—an average of 22 fowls daily.

There are also accounts for fabrics, cereals, meat, transfers of offerings, food given to temple employees as their pay. It appears that supervisors received larger quantities.

Examination of the documents, their vocabulary and accounting symbols, reveal the existence of:

—vouchers, in the form of short inscriptions on pottery shards (ostraka).

—journals, daily papyrus records of a precise nature. For example, a day-by-day record of temple revenues, listing the place of origin—sometimes 80 kilometers distant—as well as the items and the name of the bargee or other carrier. These headings appeared on the upper line of the document, quantities being inscribed daily on horizontal lines.

—monthly lists, probably summaries, column titles occupying the first horizontal line. The other lines were divided into three groups of ten items, representing the three decades of each month; a red line divides one decade from the next.

—budgets: in order to set up their accounting records the scribes must have been notified of the quantities that they were expected to receive during a given period (generally one month). These quantities were not always delivered according to the plan, and sometimes partial deliveries took place, resulting from shortages of certain foodstuffs at particular times of the year.

We often find the theoretical quantity written in red and the actual delivery in black. Besides entries and issues, the scribes sometimes recorded something "that was not contributed." No document reveals whether the arrears so carefully inscribed were ever received by the temple, which does not prove, however, that these debts were not settled in one way or another.

—columnar records: these are not a recent invention! One record has been found that had 87 columns. The accounting papyri often look like double-entry accounts, to be read by referring to headings in the upper part of the document and those carried on the right page. Some pieces are larger than 75 cm., others are tiny shreds. Documents lacking horizontal or vertical headings are indecipherable. What can be the meaning of names and figures recorded in such mutilated lists?

—accounts. In the case of grain, the deduction for quantity consumed by the animals is sometimes *added* directly after the entry is recorded, which suggests that feed was taken out before the grain was received, perhaps for animals fed in transit. Cost of transportation was also paid in kind, but *deducted* from the account, as though paid after delivery.

—accounts for materials, in bales or boxes, reveal a great variety, and although names are provided, they fail to enlighten us on the nature of the textiles referred to. Some were woven in the temple itself, others imported. There must have been linen for the festive robes of the king (ritual of clothing the royal statues). There must have been materials for embalming, or to make wicks for lamps, or even as salary for visitors from the other world.

Curiously enough, the accounts for materials included beef fat, doubtless used for illumination in conjunction with the lamp wicks;

rolls and thongs of leather; string; boxes of virgin papyrus, perhaps recalling the time when some clothing was made of this material; jewellery—rings and mounts decorated in rich metals; confectionery, for which we have no explanation.

—meal vouchers *(nil nove sub sole)*[b] including what the author calls "passes"; in his words, "Let him have access to the platform containing the food of the king's funerary offering."

Other documents show that temple employees invited friends, visitors, persons not in the service of the temple, to share their revels. Some obviously benefited from the food destined for the deceased. Even so, the burden represented by this complex economy should not be underestimated. Every day an ox was sacrificed to feed the temple, 365 oxen annually, in addition to 10,000 fowls. This was supplemented by bread and beer at every meal.

—a vocabulary: we have noted the use of hieroglyphics for "that was not contributed"; temple revenues, whether daily or not, were called "contributions," as they were contributed to the temple by the persons whose names appear in the lists. Another hieroglyphic, two legs in the action of walking, designated an expense. Even then, it was known that money takes off! Other symbols were obviously check marks; a slanting line at the side of, or above, a figure showed that the account had been checked.

Conclusion

The author of the doctoral dissertation, Madame Posenar-Kriger, refrained from drawing conclusions; her objective was to translate and comment upon the documents. In my opinion, the funerary temples were comparable to the communal *kholkoz* in the Soviet Union, or the Israeli *kibbutz*. They show the realization of the ecologist's dream: a return to the land. Instead of parcelling land out between individuals, who often simply hold it, this system resulted in its cultivation.

There was not enough work to go round, yet people had to be occupied with something; we have the same problem. They must be organized into homogeneous groups, like the servants of the temple. We know how many there were, requiring one ox a day to feed them, but there is another aspect to consider. In a hot climate, where meat and vegetables could only be transported early in the

[b]Stevelinck refers to luncheon vouchers, a contemporary device for providing employees with tax free meals during the work day. Ed.

morning if they were not to spoil or rot, it was necessary to bring together enough mouths to consume an entire ox at one time.

They tried to occupy people with useful work: gardening, feeding livestock, maintaining buildings and barges, emptying bins and baskets. Finally, however, it was necessary to invent idiotic tasks for the sake of their mental and physical health. Many were guards; for the four-man transport barges that travelled the Memphis canal serving the temple, for the stores that received goods for the temple day and night, for the terraces, corridors, religious objects. Some were required to pace the outskirts of the temple four times a day, others to move things and replace them again. Religious objects had to be cleaned, notably the two copper barges that served symbolically to transport the dead king to the land of darkness—one for the morning, the other for the evening. (It still remains a question whether there were in fact two, or simply one that served both the morning and the evening.)

But man does not live by bread alone, even if he must work for it. He must be entertained. The year was divided into festivals, when life became more satisfying, if only thanks to the offerings. Each festival had its own important sacrifices, to which were added the robing and opening of the mouths of the kings' statutes, processions, dances and songs.

In this autarchical country, social groups were cordoned off and kept strictly separate. The atomized population was dominated by a bureaucratic class that exercised a pitiless power over the days and nights of subordinates, whose work, speech and leisure were completely controlled. A totalitarian state, where power and authority were administered by a dictatorial group that included scribe-accountants and accountant-auditors of the successive dynasties. History of yesterday and tomorrow, for history repeats itself. Yet, what do we learn about *accounting* from these ancient papyri?

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ACCOUNTING ON THE OLD PLANTATION: A Study of the Financial Records of an Ante-bellum Louisiana Sugar Planter

Abstract: Very little information exists on the accounting methods and procedures of the great cotton and sugar plantations in the Southeastern United States during the period preceding the Civil War. Fortunately, one sugar planter, William J. Minor of Natchez, Mississippi and Houma, Louisiana, maintained a detailed set of records, among which are two ledgers. From these we learn that a hybrid accounting system, using elements of cash and accrual and single and double-entry bookkeeping, was in use. While such a system might seem strange today, it appears to have served its purpose in its particular operating environment.

One of the most interesting and glamorous periods in the history of the American South is the decade preceding the Civil War. Although scholars who have researched this period have found a wealth of information about the social fabric and about economic aspects of the period, very little appears to have been written on the financial recordkeeping systems of the various economic units, especially the great cotton and sugar plantations.

Two possible reasons for this dearth of information are:

1. Planters were too busy to bother with bookkeeping, or
2. What records were maintained were, in many cases, destroyed during the Civil War. Certain records in various state archives lend credence to this, as there are often missing pages which might have contained financial statements, lists of assets, or crop information.

Information available on the early plantations comes primarily from diaries and family letters. Such materials contain many details of the social and economic conditions of the time. They also provide a picture of the relationships between the planters and their families, business associates and slaves, and discuss the weather, the condition of the crops, and sickness among the slaves. Little financial information, however, is provided.

Fortunately, one planter, William J. Minor of Natchez, Mississippi and Houma, Louisiana, kept a series of diaries and ledgers which provide a great deal of insight into the operating and financial aspects of large sugar plantations. The purpose of this article is to describe these records and to show that this planter maintained a fairly sophisticated accounting system. First, however, it is necessary to understand something of the environment in which the plantations operated, as well as of the operations of the plantations themselves. Therefore the first part of this article will be devoted to a general description of ante-bellum plantations. The second part will describe the specific plantations owned by Minor, and the diaries and ledgers used to record their operations.

Plantation Operations

The plantations studied in this paper, which were in Southeast Louisiana, grew sugar. They were established during the nineteenth century, in contrast to many Virginia and Carolina plantations, which were over 150 years old by the time of the Civil War.

Each plantation was relatively self-contained. Because of the seasonal nature of the crop, and the need for labor to handle the "peak" season, it was possible to engage in other pursuits during the rest of the year.

One such activity was the production of food. According to one planter, corn and livestock occupied 17% and 15%, respectively, of the total mandays worked on his plantation.[1] Another was the making of clothing. This had the added benefit of providing gainful employment for those who were temporarily or permanently unable to perform field work. According to a plantation guide of the times, a sign of good management was "having all winter clothing spun and woven on the place. By having a room elevated to that purpose, under charge of some one of the old women, where those who may be complaining or convalescent after sickness may be employed in some light work, and where all of the women may be sent in wet weather."[2]

Other activities which aided self-sufficiency included cooperage, shoemaking, carpentry, and roadbuilding. In addition, certain slaves, who were trained as skilled artisans, were often hired out as independent "contractors." Their obligation to their owners was to pay them a predetermined share of their income.

A typical sugar plantation consisted of 2,000 acres of land, only part of which was cultivated, and 100-150 slaves. In addition, it had a sugar house and mill, where the sugar was crushed and the juice purified and granulated. A large investment was required for oxen and horses, to provide the motive power necessary to operate the mills, move the crops, and assist in plowing.

Slaves were purchased with cash, short-term promissory notes or, most commonly, with drafts on factors. During the 1850s prime field hands sold in New Orleans for around $1,500 each.[3] Women, children, and cripples were somewhat less costly. In addition to providing a reasonably dependable work force, slaves reproduced themselves at a rate generally more than sufficient to offset depreciation and death of those originally purchased.

While the smaller plantations were directly managed by their owners, the larger ones tended to be run by general agents or overseers, responsible for all operations. It appears that overseers were difficult to deal with, and often proved unstable or incompetent. A plantation owned by William J. Minor, for example, employed six overseers between 1847 and 1860.

One reason for the turnover of overseers can be gleaned from the following example of the rules and regulations of a cotton plantation:

1. He is to be *personally* responsible to see to the feeding and currying of the horses and mules every day while they are at work, and at such times as may be required, such mules and horses at least once every week.
2. He is to require certain hands to see to the feeding and the currying of the mules and horses, who shall be detailed specially for this purpose.
3. He is to keep accurate account of all plantation implements, tools, etc. and inventory all the same on hand quarterly.
4. . . . to see that each hand performs his appointed task or daily amount of labor, to treat all slaves with kindness and humanity, not to whip cruelly, or unnecessarily, not to beat, bruise, or maim any slave, not to work hard, whip severely or otherwise illtreat woman with child, not to permit one Negro to whip another, to allow no quarreling, fighting, or cursing among the slaves . . . to keep accurate account of the daily-picking of cotton made . . . to carry out the rules for the management of my slaves. . . .[4]

The field slaves were organized in gangs, each under the supervision of a first and a second driver. The drivers were usually slaves themselves. Rations for each field hand at the Minor plantations consisted of three and a half pounds of pork or bacon per week, as much bread and molasses as he could eat, and "also vegetables of the season—as many as he can eat."[5]

Slaves were also allowed to maintain their own vegetable gardens and to keep chickens and other small animals. On many occasions they sold the chickens and eggs to the plantation, either for cash or for tobacco and sweets. They were provided with clothes, which were usually made on the plantation, along with one pair of shoes per year.

While the lot of the slave was not to be envied, he or she was relatively well treated at most plantations. This humane treatment was not so much a function of morality on the part of the planters as of the fact that each slave represented a sizeable investment. Cruel treatment would not only reduce the productivity of the slaves, but also tend to decrease their resale value.

In addition to their crop-raising functions, many plantations operated general stores. Such stores sold food, shoes, chinaware, and farming utensils. Generally, these items were sold on credit, with payment made after the sale of their customers' crops. Livestock and vegetables were often taken in trade for manufactured goods and clothing.

On some plantations slaves were paid for their labor. Wages usually ranged from $1.00 to $10.00 per year, depending on the nature of the work performed. Although most slaves spent their money at the plantation store, a few chose to save up to buy their freedom, or the freedom of a child.

A discussion of plantation life would not be complete without mentioning the role of the factor. This firm, usually located in a major city, received the planter's crop on consignment and sold it for the best possible price. For this service it received a 2½% commission.

The factor also acted as a banker for the planter. Much business was conducted by means of drafts drawn against the factor. These drafts circulated freely and were considered, by some, to be the equivalent of cash. They represented advances against the following year's crop and generally carried an interest rate of 8%.

If the proceeds from the sale of a crop exceeded the funds advanced plus accrued interest, the factor paid the difference to the planter, who usually used it to buy more slaves or land or to repay other debts. If the crop failed, or the proceeds from its sale were insufficient to cover the funds advanced by the factor, a promissory note was given for the difference and the new year began with a zero balance. In many cases, the planter had to provide collateral in the form of slaves, racehorses or even an entire plantation.

Other services provided by the factor included purchasing supplies and personal items not readily available to the planter locally, purchasing slaves for the plantation, acting as a host to the planter and his family when they visited the city, and helping to educate the planter's sons. The factor also performed financial recordkeeping for many plantations. Exhibit 1 shows Minor's statement from Henry L. Leverich & Co., a factor located in New York City, for 1838-9. It will be seen that this firm charged interest on debit balances and paid interest on credit balances.

The Minor Plantations

The plantations whose records are the subject of the remainder of this article were owned by William J. Minor, the son of a governor of the Natchez district when it was still under Spanish control. Minor's early life was spent near Natchez, but, in the 1820s, he was sent to Philadelphia, where he studied Latin, French, and English under a tutor and attended science and philosophy lectures at the University of Pennsylvania.

In the 1830s, Minor returned to Natchez with his wife, Rebecca Gustine of Carlisle, Pennsylvania, entered the banking business, and fathered eight children. By the 1850s he had acquired three sugar plantations in Louisiana—Waterloo, a 1,900 acre holding on the Mississippi River about 25 miles below Baton Rouge, and Southdown and Hollywood, 6,000 and 1,400 acres, respectively, in Terrebonne Parish, near Houma.[6] Although Minor directed these plantations from his residence near Natchez, he retained control of management policies at all times. He visited the plantations frequently and kept in constant touch with them by mail. Day-to-day operations were taken care of by his sons and by overseers.

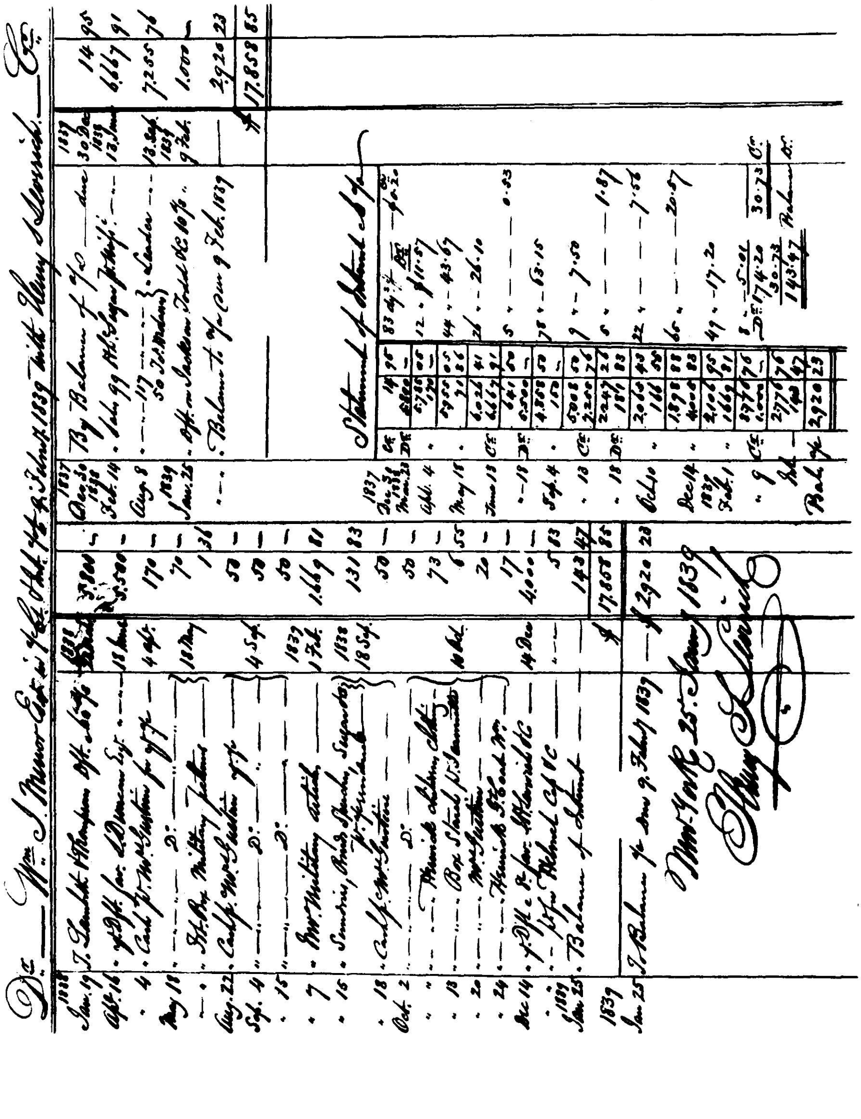
Minor's factors were H. L. Leverich & Co. in New York and W. P. Leverich & Co. in New Orleans. Occasionally, however, he sold his crops directly to customers. The use of the Leverich firms was no accident; two of the Leverich brothers were married to sisters of Minor's wife. The use of a New York factor offered greater access to capital markets and, in many cases, higher prices for sugar and molasses.

Politically, Minor, like most other large slaveholders in the deep south, was a Whig. He was interested in the preservation of slavery, not on moral grounds, but because of his tremendous investment in human resources. He was firmly opposed to secession because he

EXHIBIT 1

STATEMENT OF ACCOUNT WITH HENRY L. LEVERICH & CO.

EXHIBIT 1
STATEMENT OF ACCOUNT WITH HENRY L. LEVERICH & CO.



was convinced that it would lead to a war which would destroy the plantation system and result in the emancipation of the slaves.

During the Civil War and the Reconstruction, Minor suffered greatly. He spent the remainder of his life pressing his claims against the U. S. Government for compensation for his losses.[7] Fortunately, he was able to keep the plantations and they stayed in the Minor family until 1932. William Minor died, in 1869, of a stroke of apoplexy brought on, no doubt, by events following the "unfortunate confrontation."

The Minor family papers are extremely interesting from the standpoint of the accounting historian. In addition to over one hundred letters, the collection contains diaries (journals) covering the period 1847-1869, five notebooks containing observations on scientific topics, a list of family births and deaths for 1846-1860, a family geneaology, a list of Negroes (1852), with data on births, weights and deaths, a post-bellum freedman's contract and a great deal of other material (including a complete book on steam engines) not relevant to the financial aspects of plantation life. For purposes of accounting research, however, this collection also contains two ledgers. The first covers all of Minor's holdings from 1834 through 1883. The second appears to be from a general store or commissary and covers the period 1857-1869.

The Diaries

The diaries have hard covers and are much like diaries in use today. William Minor kept one for each plantation. In it he (or the person keeping it) recorded information about the weather and various daily activities. He also made notes on the size of different fields and lists of "weights of sugar." An example of this last is located at the end of the 1850 Southdown diary. It is probably a list of weights of hogsheads of sugar produced that year (e.g., 1,350, 1,110, 1,180, etc.).[8] The same diary also contains an inventory of livestock made every three months (e.g., work oxen—37, bulls—1, cows—24, etc.).

From it we can obtain an idea of the level of self-sufficiency of the plantations and of outside purchases. Typical entries include:[9]

Sept. 25, 1849 — Making bricks—Davis gang cutting cane stalks—no rain.
Sept. 26, 1849 — Making bricks—cutting out weeds—gathering corn, putting in pea vines—no rain.
Sept. 1, 1850 — A day of great weather changes yesterday. Today it is clear and quite cool. Wind

		northerly—John (?) landed 20 bottles of liniment from Leverich & Co. New Orleans.
Mar. 11, 1852	—	Bot (& hauled home) 1,850 barrels of corn @ 75¢ a barrel & 8 barrels @ $4—Corn planted on the 27th & 28th Sept. coming up all along the rows—as it is very dry, the peanuts do not look very vigorous—Very slight rain last night—no rain today.
Oct. 18, 1852	—	Men cutting cane—Davis gang digging ditches—no rain.

Some entries in the plantation diary give insights into other aspects of the organization, such as the health of the slaves, and the quantity of sugar refined.

Dec. 14, 1850	—	Some impurities in the 1st strike—rest clear—Produced 27 Hogsheads of sugar
June 9, 1851	—	Lost 40 men, women and children by cholera
Sept. 10, 1851	—	A great deal of sickness on the place—for the last six weeks have averaged 25 in the hospital—Intermittent and Dingue fever, influenza and grippe—heavy rain
Sept. 17, 1851	—	Seventy in hospital here—most with mumps, boils and fever—All the nurses broke down
May 5, 1856	—	Gave the Negroes their summer clothes—The day has been very humid—Afraid it will rain in a few days
Mar. 10, 1860	—	Clear. Started plowing in #42 field—Some of children sick, hear Mr. Glass has lost 9 negroes in last 2 weeks and 17 since July—"pneumonia"
Mar. 24, 1860	—	Beverly (Hannah's child) died at 15 past 6 P.M. aged near one year

The plantation diaries give us little or no information as to the revenues or expenses of the plantation. Fortunately, William Minor also kept a personal diary for the same period. It is here that we find more financial information. Sales were sometimes recorded in this diary, as were major purchases and other expenses. Among the entries are the following:

Mar. 5, 1849	—	Mr. William F. Gray took job of overseer at Southdown at a salary of 1,000 per annum

Mar. 11, 1849	—	Shipped to A. S. Brigman 1 Hogshead Sugar—1253 gross Shipped to Jas. Ligit 1 Hhds Sugar—1305 gross Shipped to R. McCullin 1 Hhds Sugar—1300 gross
Apr. 10, 1849	—	Shipped this day from Southdown on schooner Col. Fanning—Wm. Custheant, master—145 hogshead sugar, 3 barrels cistern bottoms, 198 barrels molasses—The Fanning lay 20 days at mouth of bayou—including 2 Sundays
Feb. 26, 1856	—	J. H. Ilgler paid yesterday to Leverich—N.O.—$550 but still owes for 53 days interest at 8%—$6.47

This plantation also manufactured parts for cisterns. Evidently, it employed an in-house cooper to make barrels for the sugar and in his spare time, the cooper must have made the cistern bottoms—another source of income for the plantation and, perhaps, himself.

The Ledgers

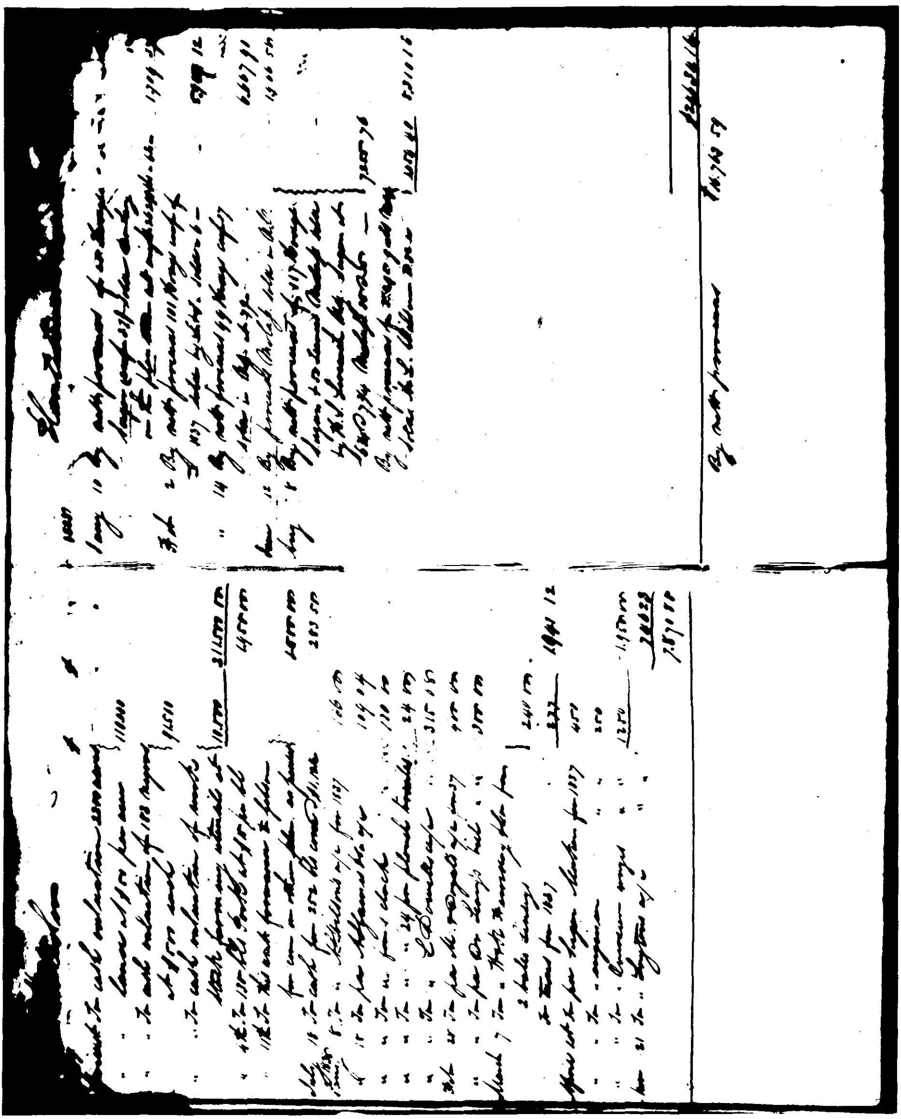
While the personal diaries of William J. Minor provide us with some financial information, they do so in a sporadic manner, shedding little light on the records maintained for the plantations. Fortunately, this collection, unlike most, contains two complete ledgers. The first one covers Minor's business enterprises between 1834 and 1883, and the second one appears to be from a general store or plantation commissary for the period 1857-1869. Both are in remarkably good condition, considering their age.

The ledger used to record Minor's business activities is leather bound and contains about 200 pages. It measures 8½ inches by 11 inches, and opens flat, exposing a page for debits on the left and one for credits on the right. In the beginning of this book is a separate index section, with tabs for each letter of the alphabet. Under each letter is listed one or more accounts and the page on which each is found (e.g. Leverich & Co.—150), making it easy to find any account in the ledger.

This ledger contains accounts for the three plantations and a breeding farm Minor also owned. In addition, it contains a rather sizeable account for Mrs. Katherine Minor, his mother, which appears to cover her household expenses. Finally, the ledger contains

EXHIBIT 2

LEDGER ACCOUNT OF WATERLOO PLANTATION, 1837-38



accounts for Minor's factors, merchants with whom he traded, his physician, and other persons from whom he purchased goods or services, or borrowed money, or to whom he lent money.

Each group of accounts covers a three to five year period, after which come several blank pages, and then the same accounts for another similar period. This process repeats itself, with a few changes in the individual accounts, through the 1860s. A sample account for the Waterloo plantation is illustrated in Exhibit 2.

The plantation accounts are, generally speaking, operating accounts. When Minor incurred an expense, he made a debit entry. Expenses were usually paid in cash or by the factor. Credit entries were made to record sales of sugar, molasses, cisterns, and miscellaneous items, such as horses and guns. In the accounts of the factors, debits represent the sales of crops while credits represent items purchased through, and interest on funds borrowed from, the factor.

Many entries can be traced from the plantation to the factor, indicating double entries. For example, on November 15, 1849, Minor made a credit to the Southdown account for $12,901.46. The description in the ledger reads "By new proceeds 285 Hugs (hogsheads) Sugar, 3 bls. Cisterns & 329 lbs. Molasses sold in New York by C. P. Leverich." On the same date, in the C. P. Leverich & Co. account, Minor made the following debit entry:

1849			
November 15			
To net proceeds			
	140 Hoghs Sugar		
	130 Bls Molasses	$6,493.88	
	145 Hoghs Sugar		
	3 Bls Cisterns		
	199 Bls Molasses	6,407.58	$12,901.46

Minor's expenses can also be traced to his factors' accounts, although he would sometimes record his balance with each factor as a single entry to a plantation account. Notice, for example, in Exhibit 3 the Leverich & Co. debit dated July 1, 1847. In this year Minor went into debt to his factor, as the expenses he incurred were not covered by the proceeds from his crops. Minor probably paid this difference in cash or signed a note for it.

An example of an expense that can be traced to Minor's factor (C. P. Leverich, again) was dated October 1, 1848. On the debit of the Southdown account is the following entry:

EXHIBIT 3

LEDGER ACCOUNT OF SOUTHDOWN PLANTATION 1846-47

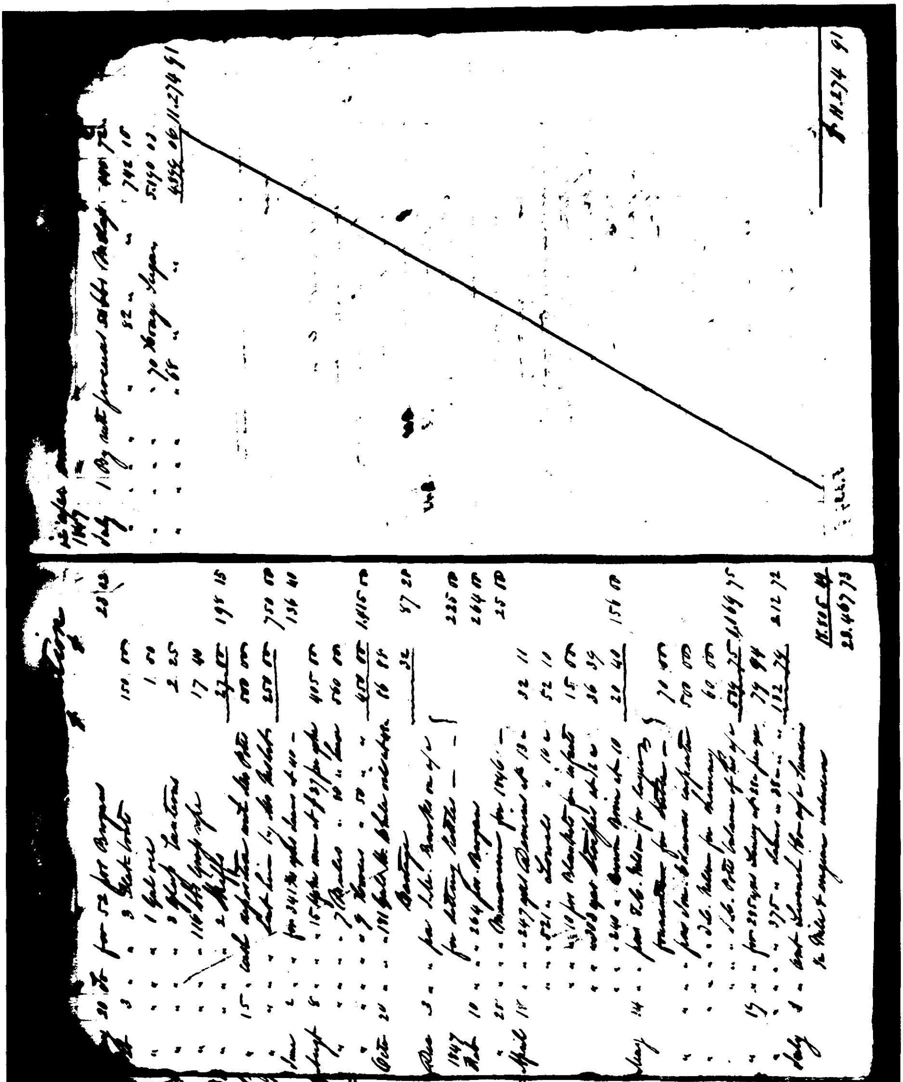
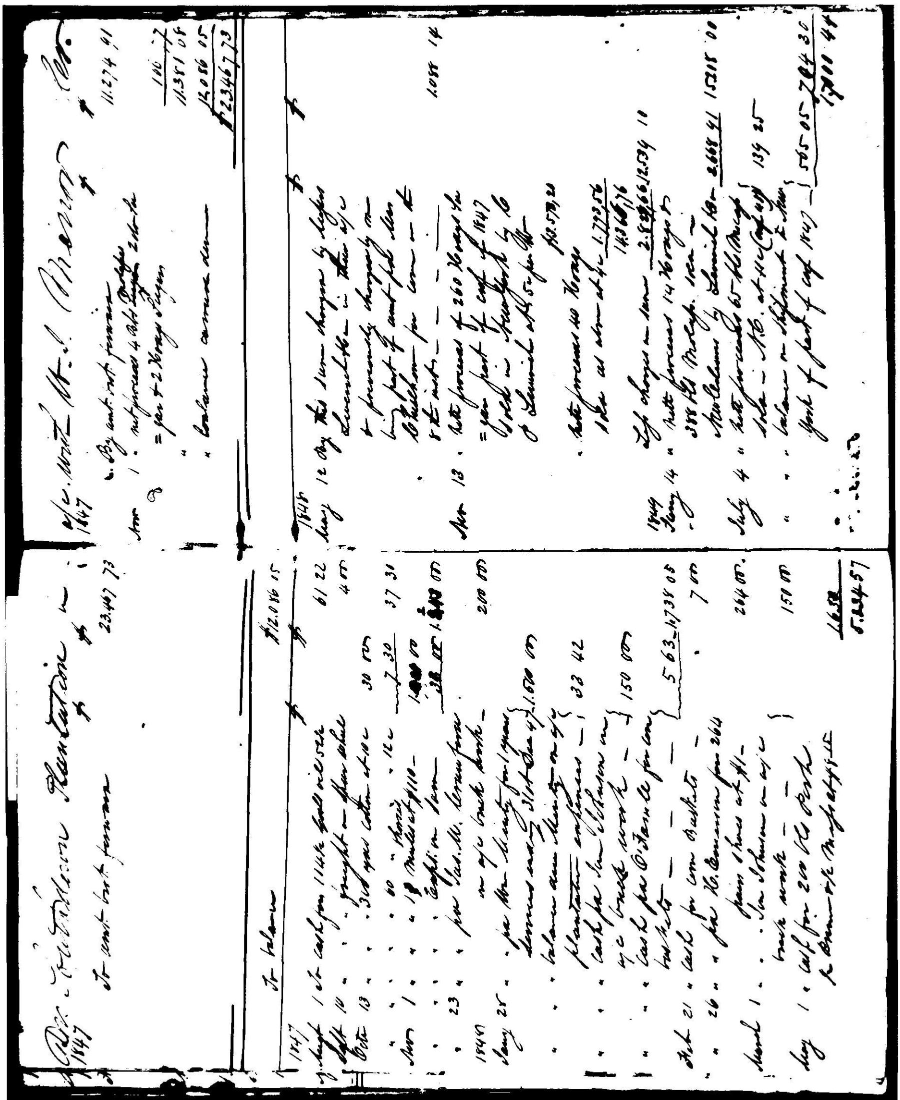


EXHIBIT 3 (continued)

LEDGER ACCOUNT OF SOUTHDOWN PLANTATION (continued)



October 1	Cash paid for 142½ gals oil		
	@52½¢ per gallon	$72.80	
	5 lbs. Indigo	5.31	
	Cartage & Insurance	2.45	$80.56

In the C. P. Leverich account is the following credit entry:

October 1	By Sundries for Southdown	$80.56

Why he referred to "cash" when Leverich & Co. probably purchased the materials is open to speculation. Perhaps he was careless when making the debit entry, and put a ditto mark under the word "cash" in the previous entry, which really was for cash purchases.

Generally speaking, Minor was not interested in a balance sheet. The only attempt at capital valuation is found in the 1837 account of Waterloo plantation. At the time he purchased it, he made the following debit entry:

1837			
August 1	To cash valuation 2200 acres land at $50 per acre	$110,000	
	To cash valuation of 183 Negroes at $500 each	91,500	
	To cash valuation of work(?) Stock, farming utensiles, etc.	10,000	$211,500.00[10]

Minor apparently did not carry this balance forward or revalue his assets, nor did he record depreciation. All other debits from this entry forward were for expenses. They include such items as medical bills for the slaves ($300), taxes ($277), and pork, corn and general operating expenses ($1,000). In addition to the overseer ($1,250), Minor hired an engineer ($250) and a sugar maker ($450) to operate his processing plant during the grinding season.

The System

A study of the ledgers reveals that Minor was primarily interested in the operating statement, and that he used a variant of the cash basis. Revenues received and expenses paid directly in cash were recognized when the cash was received or paid, whereas revenues and expenses incurred through his factors were generally recorded when Minor received notification of a sale or a purchase from the factors, rather than when cash settlement was made. Thus, when dealing with factors he used the accrual basis.

Minor apparently maintained one account for each plantation. When an expense was incurred, the account was debited, and when crops were sold, it was credited.

One other expense that appears occasionally in the ledger, and is also mentioned in Minor's personal diaries, is rental of slaves. In 1840, he hired an undisclosed number of Negroes from F. L. Claiborne for $200. He also rented a number of slaves from R. R. Wilkins, at rates of $7.50 and $10.00 per month, for several years.

The accounts of Minor's factors were kept in the same manner as the plantation accounts. At the end of each year, the factor would generally send a draft to Minor for the difference between the debits and credits, or occasionally Minor would send funds to the factor, or sign a note for the difference. Interest was paid on amounts owed by both Minor and the factor. The account illustrated in Exhibit 4 is interesting because Minor received settlement drafts in favor of several other parties, including his principal factor Leverich. No further entries are found for this particular account.

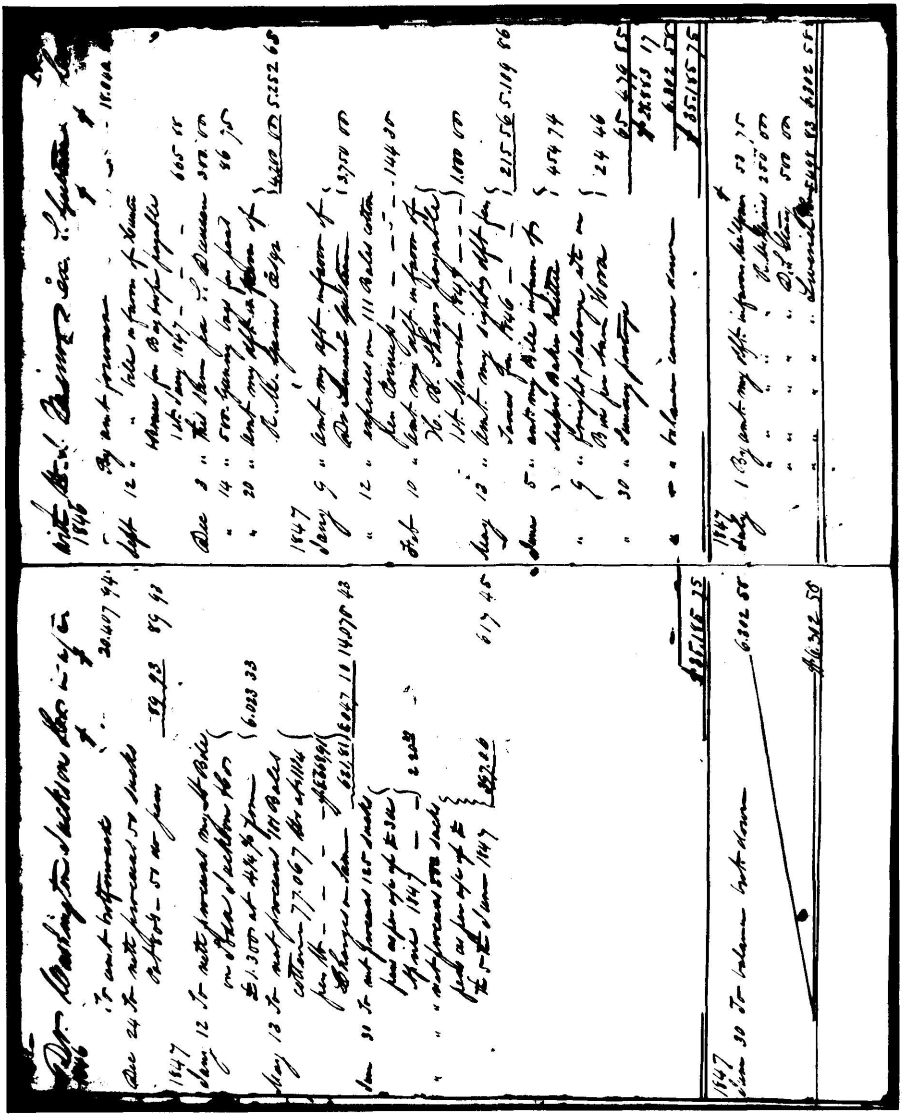
William Minor did not use the calendar year as his accounting period, but had a June 30 fiscal year. This was probably because June was a slow time in the sugar business and, by the end of that month, all revenues from the previous year's crop should have been collected. All expenses incurred after the end of June could reasonably be charged against the next year's crop. Unfortunately, Minor sometimes continued to record revenues after he had finished recording the expenses of a given fiscal year. He would often close out August credits to the prior year while he closed out July debits to the current year. He probably did this when the late credits represented revenues from the prior year's crops. Most of the time, however, his debit and credit entries to revenue and expense accounts matched, and closing was completed after the last credit entry was made.

Study of this particular ledger leaves the reader puzzled in respect of accounting for cash. Minor would, for example, debit an account "To cash for 252 lbs. corn at $1.12½—$283.50," but where was the credit to cash? The accounting records do not show the receipt of cash from Minor's factors, or from the sale of crops. Where were such receipts recorded?

Minor might have maintained a separate cash book, which has been lost. As he was a banker, however, it is more likely that Minor

EXHIBIT 4

LEDGER ACCOUNT OF WASHINGTON, JACKSON & CO., 1846-47



put his cash in the bank and used his bank statements to keep track of it. This idea is especially plausible as he would occasionally give the overseer some cash for operating expenses, rather than maintain a separate cash account in the ledger for each plantation. Thus it appears that, in the case of cash transactions, Minor was using a single entry system but, in the case of transactions on credit, he was using double entry. As he apparently did not prepare financial statements, and was interested primarily in the profit of each plantation and how much he owed or was owed, this system probably met his needs.

The second ledger, that of a store or commissary, is smaller than the first (about 80 pages) and has accounts for shoes (which were given to the slaves and cost $1.00 per pair), merchandise, and for various people, most of whom are recognizable as employees of the plantation, slaves or neighbors. In these accounts, the person was debited for purchases and wages or cash (or in-kind) payments were credited. Every so often the account was settled, and Minor made a note of this at the bottom of the page.

The account of Andrew Dugas, an overseer at Southdown, is illustrated in Exhibit 5. Mr. Dugas purchased sugar, oil and molasses, as well as provisions from another merchant. His wage for the calendar year was $1,000. Minor deducted the commissary bill from this amount and paid him the difference in cash. The other accounts in the ledger are similar to this one, most of the purchases being pork, provisions, and sugar.

Since there is no goods account, it is difficult to ascertain if this ledger was merely used to keep track of how much was owed (an accounts receivable subsidiary ledger) or whether it was also used to determine the profitability of the store.

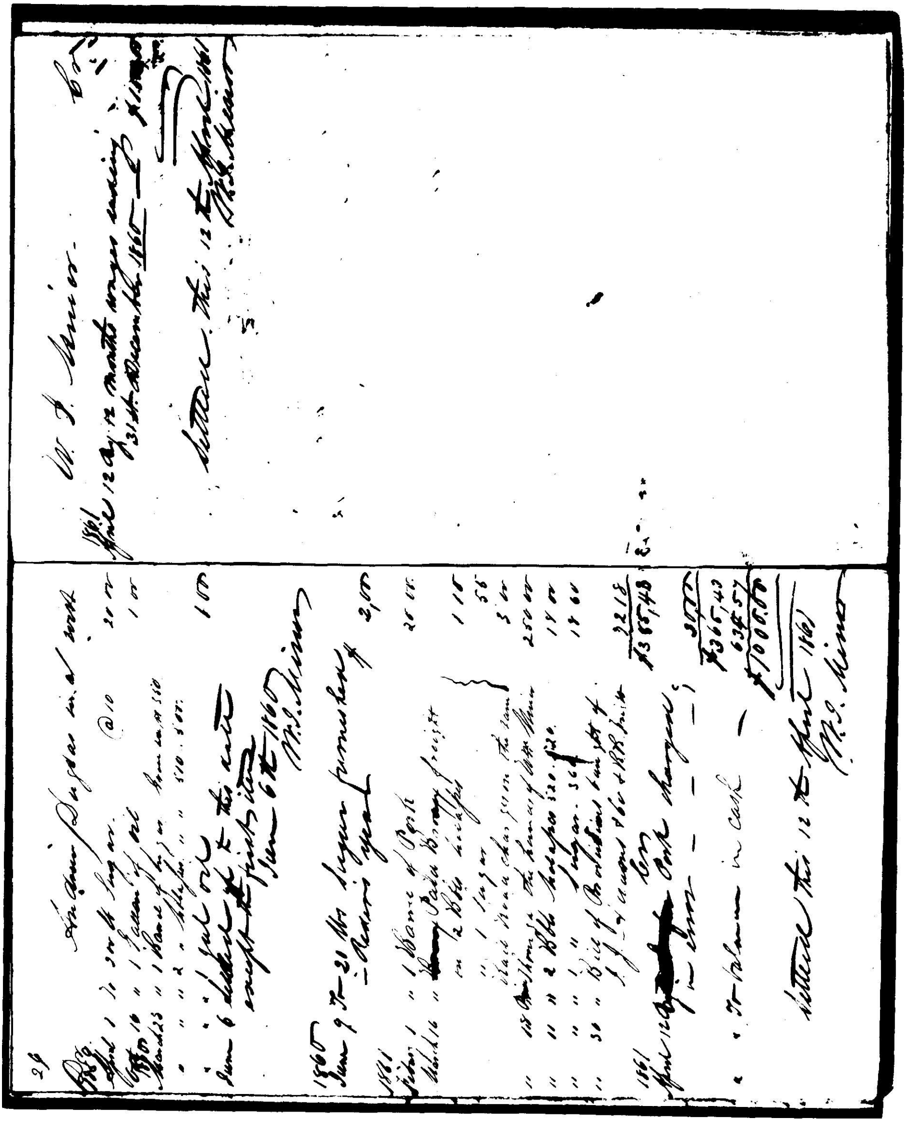
Conclusion

On the basis of the Minor ledger, it appears that a fairly sophisticated accounting system was in use on at least three sugar plantations in the ante-bellum south. The accounting records studied, of William J. Minor, reveal the use of a "hybrid" system. Although essentially on the cash basis, receivables and payables were also recorded. In large part, this resulted from the use of factors who handled most crop sales and many purchases for the plantations.

The system appears to be double entry when transactions were made through factors, but single entry when purchases or sales were made directly by the plantations. Finally, there was no provi-

EXHIBIT 5

ACCOUNT FROM STORE LEDGER—ANDREW DUGAS



sion for depreciation or accounts for fixed assets, other than the entries at the beginning of the Waterloo Plantation account.

It must be remembered that most plantations were family-owned and, since there were no income taxes and few regulatory bodies, governmental interference in the affairs of businesses was rare. In addition, the planters' factors often maintained records of the plantations' revenues and many of the plantations' expenses. Minor was probably atypical in that he paid so many expenses in cash, rather than with drafts drawn against his factors. Being a banker, he was probably less willing to place his fortune in the hands of outside parties than were his fellow planters.

FOOTNOTES

[1]Kollock.

[2]Affleck.

[3]Phillips, p. 142.

[4]Eaton, p. 246.

[5]McKnight.

[6]The land on which Southdown Plantation was located once belonged to the legendary "Jim" Bowie.

[7]For a detailed account of his tribulations after the Civil War, see J. Carlyle Sitterson, "The Transition from Slave to Free Economy on the William J. Minor Plantations," *Agricultural History*, Vol. 18 (1944), pp. 216-24.

[8]A Hogshead of sugar is 63 gallons and weighs between 1000 and 1300 lbs., depending on moisture content.

[9]Minor, "Plantation Diaries," 1847-1869. The remainder of the entries discussed herein are found in this collection, which is part of the Minor (William J. and Family) Papers, and which is found at the Department of Archives and Manuscripts, Louisiana State University, Baton Rouge.

[10]The original copy of this ledger page is shown in Exhibit #2.

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THE NINETEENTH CENTURY INCOME TAX IN THE SOUTH

Abstract: In this paper, an author discovers his heritage: the income taxes which evolved in the South of the United States during the nineteenth century. These taxes are of interest because many tax concepts which are now taken for granted were developed during this time. Of particular interest are the common factors and events which led most southern states and the Confederacy to experiment with an income tax. These experiments influenced the structure of the United States federal and state income taxes in the next century.

The United States federal income tax did not emerge suddenly with the passage of the Sixteenth Amendment. Rather, the modern U.S. income tax, adopted in 1913, is the product of long development, experimentation and evolution. The current income tax system can be traced to the faculty tax used by the New England Colonies, to the United Kingdom income tax introduced during the emergency of the Napoleonic Wars, to the federal income tax adopted by the North during the Civil War and to the income tax experiments of several southern states in the nineteenth century. These, in turn, influenced not only public acceptance of the income tax and the passage of the Sixteenth Amendment, but also the form and content of the income tax law and the administration of the resulting tax system.

At the time the Sixteenth Amendment was adopted, and the 1913 Tax Act was passed, no part of the United States had had as much experience with the income tax as the South. Almost every southern state utilized the income tax at some time during the second half of the nineteenth century. Three southern states still levied an income tax when the federal income tax was made constitutional. In addition to its use in southern states, the Confederacy developed a "national" income tax during the Civil War. This little remembered tax was apparently more successful, better designed and

The author appreciates the helpful comments of the anonymous reviewers and editors.

better administered than its Yankee counterpart. The income tax developed by the Confederacy impacted upon the 1913 Federal Income Tax Act because the Confederate Income Tax at first taxed *net* rather than *gross* income. Again, during the Civil War the citizens of southern states experienced a "double" tax on income— one tax levied by the state and one tax levied by the Confederacy. For many other states, this double tax problem would not occur until a hundred years later.

This paper traces the development of the income tax in the South during the nineteenth century. The income taxes of the southern states and the Confederacy are described. Rather than emphasizing historical detail, the paper focuses on the commonality of the southern income tax experience: the social, economic, political and historical factors that influenced the development of the income tax throughout the South.

The history of the southern income taxes is divided into three eras: the period of experimentation (1840 — 1859), the period of fruition (1860 — 1865) and the period of decline (1866 — 1900). The paper is subdivided into sections which correspond to these eras.

The Period of Experimentation

During the 1830s the United States experienced a great surge of economic activity, partly due to the expansion westward. To support the resulting growth in commerce as well as the westward expansion, a large number of internal infrastructural improvements were undertaken. Roads, canals, bridges, and later, railroads and telegraph were built. While many of these projects were started by private enterprise, they were essentially public, so that when private ventures failed, the states took over the responsibility for their completion.

During this time, states used the federal surplus, then being distributed annually by Congress, for such improvements. However, in 1836 this form of "federal revenue sharing" came to an end because there was no federal surplus that year. To finish the improvements, states raised money by issuing bonds backed by the full faith and credit of the state. The improvements were supposed to generate revenues via tolls and user charges to pay the interest and principal of the state-backed bonds. However, for many of these projects, costs were under estimated and revenues over estimated, with the result that most states were in serious financial difficulty by the 1840s.[1]

With the prospect of state bankruptcy a real threat, the states proposed to tax their citizens in order to avoid default. In the North, a system of property taxes was in place, and taxes on intangible and real property were generally increased to meet the debt burden. In the South, the planter class that dominated the state legislatures of Virginia, North Carolina, Alabama and Florida opposed the use of a property tax as the way of meeting the state debt, because such a tax would be mainly borne by those who owned slaves and land—the planters.[2] Instead, these legislatures sought to tax the growing middle class of prosperous town dwellers, merchants, professionals such as doctors and lawyers, bankers and money lenders, and public employees.[3]

In 1843, Virginia levied three separate taxes that, taken together, were the beginning of the Virginia income tax. These three taxes were (1) a 1% tax on salaries over $400, (2) a 1% tax on professional fees over $400 and (3) a 2½% tax on interest from securities in excess of $100.[4] Because the law exempted ministers, laborers, craftsmen and merchants from the taxes on salaries and professional fees, only a few were actually subject to the tax. Perhaps only state employees and local officials were taxed on salaries, while the tax on professional fees was aimed at doctors, dentists and attorneys. In its crude form, this income tax was little more than a license and occupation tax.[5] The third tax, the tax on interest, appeared to be a way for Virginia to recoup some of the interest it was paying its bondholders.

Economic and political events in Alabama resembled those in Virginia, and led to the Alabama income tax. This tax began as a ¼% tax on certain business income, principally of cotton brokers, dealers and auctioneers. In 1844, Alabama enacted a ½% tax on professional incomes and on financial and educational activities. The penalty for refusing to pay the tax was $3,000. The tax on income was broadened in 1848 to include income from crafts, employment (salary) and professions. However, as in Virginia, manual laborers and artisans were exempted from this state tax. Thus the roots of the Alabama income tax were the flat percentage license and occupation tax.[6]

In 1845, Florida levied a tax of ⅕% on income of doctors, lawyers, cotton weighers, public inspectors and boat pilots. The tax was extended in 1850 to all business incomes. Commission merchants and factors were subject to a higher tax rate of two percent.[7]

North Carolina adopted a forerunner to the income tax in 1849. The tax was a three percent tax on interest, trade or dividend income (after a $60 exemption) and a tax on professionals of $3 if the income exceeded $500 per year. Even though it constituted a "tax on salaries and fees," like the taxes in Virginia and Alabama, it was more of a license and occupation tax than a tax on income in the modern sense.[8]

In each of the four states which experimented with the income tax before 1850, there was a concern with tax equity even at this early stage. For example, in each state there was an exemption from tax for those with low incomes. Furthermore, the concept of taxing "ability to pay" was understood, indicated by the legislatures' choices of the rising professional, banking and employee classes as the subjects of taxation. In Virginia, North Carolina and Alabama, a distinction was made between "earned" and "non-earned" (interest) income. Consistent with modern concepts of equity, the non-earned income was subject to a tax rate higher than the earned.[9] Ominously, the decision to limit the tax to a few groups of the population indicated the political nature of the tax.

The early tax in the four states utilized a flat rate which evolved from the flat fee tax. Perhaps this flat rate development was taken from the customs and duties ad valorem taxes utilized to a great extent to produce the federal revenues of the day; the customs and duties were proportional to the value of goods imported.

After 1850, these taxes moved away from a license and occupation tax and evolved into a more modern income tax. In Virginia, the political power shifted from the large eastern planters to the small Piedmont farmers and changes to the tax followed. The "tax on income" was first mentioned as such in the Constitutional Amendments of 1851.[10] The tax became progressive in 1853; the tax rates were as follows:

Income	*Rate of Tax*[11]
$ 0 - $ 200	exempt
$200 - 250	¼%
$250 - 625	½%
$625 - 1,000	¾%
over $1,000	1%

In North Carolina, the major change to the income tax during the 1850s was a lowering of the rate of tax on interest to 4%. The tax rate on salaries and fees was 1%, and the base of the tax was broadened to include all individuals.[12]

Florida abolished its tax in 1855 unlike Virginia and North Carolina, which were broadening their taxes.[13] Dissatisfaction with the tax was so widespread in Florida that that state avoided reinstating the income tax even during the emergency of the Civil War. Even today, Florida has no individual income tax. and its corporate income tax is a recent development.

The period of experimentation ended in the South on the eve of the Civil War. It should be noted that the two decades old income tax was marked by frequent changes in Virginia, Alabama and North Carolina. While the tax started out as little more than a forerunner of the modern license and occupation tax, it was evolving into a modern income tax. The frequent changes indicated that in each state there was dissatisfaction with the structure of the tax and that the changes were attempts to find a better, more defined base to tax.

During the experimentation period, the income tax did not succeed in generating large amounts of revenue. Virginia, the leading income tax state, collected only $16,000 from the income tax in 1844 out of a total state revenue of $432,000. Of this $16,000, $12,000 was due to the tax on interest. However, Virginia did increase its annual collections from the tax. In 1858, for example, $104,000 of state revenue came from the income tax. North Carolina had less success than Virginia; in 1851 only $30,000 was collected from the tax, and tax revenues actually declined thereafter until the Civil War. Alabama and Florida were even less successful in collecting revenues from the income tax than was North Carolina.[14]

Four major flaws contributed to this lack of success. First, in each of the four states, the administration and enforcement of the tax was left to locally elected county commissioners of revenue, who loathed taxing their neighbors and constituents. The lack of a state-level administration would be a problem which went unresolved until the twentieth century. Secondly, lack of popular support for the tax encouraged tax evasion. Thirdly, the exemption amounts were generally too high to produce any sizeable revenue; a $400 exemption excluded the majority of the population from tax, so that only a few citizens with very large incomes were taxed. Finally, planters and farmers were not subject to the income tax because their income came from land. However, agriculture dominated the economy and relatively little tax could be collected without including agriculture in the tax base. The doctrine of the day was to prevent the double taxation of property and, since property could be subject to both the income tax and the property tax, income from property was excluded from income tax. Neither agricultural nor rental income was subject to tax during the early years.

The Period of Fruition

The Civil War years were the period of the South's greatest reliance upon the income tax during the nineteenth century. The war caught the states militarily and financially unprepared. To raise revenue for the war, the southern states taxed commercial, professional and employment activity with renewed vigor. The income tax base was broadened and tax rates increased in Virginia, North Carolina, and Alabama. States where an income tax had not been attempted before—Georgia, Texas and Louisiana, for example—now resorted to this tax out of financial necessity. But the state was not the only level of government to embrace the income tax; the Confederacy also adopted an income tax for the same reason. Taxing commercial activity was politically attractive in the agrarian society of the nineteenth century South, and taxing booming wartime businesses seemed morally right when many citizens were suffering because of the war. In addition, the war effort depended on finding and paying for military supplies, and this required currency. Besides printing currency, which the South did extensively, and borrowing, dollars to pay for the war could only be found in the commercial sector of the economy, since much of the trade in the agriculture sector was effected by barter.

The income tax was successful in raising money for the states and the Confederacy. In part, this success was due to the popular support that the citizens gave their governments' war effort. The emergency of war also led to evolutionary developments in the tax which helped to make it raise revenue. Among these developments were, the broadening of the income tax base to include more sources of income, the increases in tax rates and the combining of several independent taxes into one comprehensive income tax. These developments are surprisingly modern, yet they evolved more than one hundred and twenty years ago.

State Income Taxes During the Civil War

Virginia, North Carolina and Alabama modified and expanded their existing income taxes during the war years. Texas, Georgia, Louisiana and Missouri (a border state) utilized the income tax for the first time. In South Carolina, an older form of the income tax the "Colonial" faculty tax—was modified to become a tax on income.

Virginia broadened the existing income tax in 1862, and again in 1863. Of particular note are the "modern" rates imposed by the

1863 tax: 2½% on salaries and fees, after subtracting a $3,000 exemption; a 17% tax on bond interest and income from bridges and ferries; and a 10% tax on income from licensed trades, businesses and occupations, lending money or from property transactions.[15] In 1863, Virginia collected $178,944 from the income tax. This would be the high water mark for the Virginia income tax until the twentieth century.[16]

The North Carolina state income tax was modified in 1861 to increase the tax on roads, bridges and ferries to 1½%. The next change came in 1863, when an exemption of $1,000 was adopted for taxpayers who had income from salary or fees. In addition, in 1863 the tax on profits was modified by setting up classes of activity and taxing the classes at different rates. The rates of tax ranged from 2% to 20% and the rate structure appears to have been designed to encourage certain activities which would help the war effort, while discouraging other activities which distracted from the war effort, or where speculative "war" profits were being made.[17] This use of the tax to influence economic efforts seems surprisingly modern.

The Alabama income tax was broadened in 1862 to include income from most occupations, and the rate of tax was increased to 5%. In addition, a 10% tax was levied on the salaries and wages of men exempt from military service. Alabama also provided the most stringent sanctions against those citizens who would not comply with the tax law: fine, imprisonment or both.[18]

During the Civil War, South Carolina modified its existing faculty tax to turn it into an income tax. The tax was set at one percent and applied to all incomes from "factorage, employment, faculties and professions." In computing the tax, a $500 exemption was deducted in determining the amount of income subject to the one percent tax.[19]

Georgia instituted its income tax in 1863; this tax was most notable for its strongly progressive rate structure. The tax was levied on business profits and the rate of tax was based on the rate of return on invested capital. The rates were as follows:[20]

Profit as a percent of capital	Tax Rate
20%	½%
20% - 30%	1½%
30% - 40%	2%
40% - 50%	2½%

and for every 10% increment that the rate of return exceeded 50%, the tax rate increased by ½%.

The Georgia income tax was, in essence, a war profits tax with the tax imposed on profits in excess of a "fair" return. The base used to compute the tax was the "profit-to-invested-capital-ratio." The proceeds of the tax were used for pensions of widows and orphans of Georgia soldiers killed while serving in the Confederate army, and for pensions for wounded Georgia soldiers.[21] Less than a year later, the tax rate structure was altered and the sliding scale rates based on profit percentage were abandoned. The new tax rates were based upon the dollar amount of profit exceeding 8% of invested capital. The 1864 rates were as follows:[22]

Amount of Income in excess of 8% of Capital	*Rate of Tax*
0 - $ 10,000	5%
10,000 - 15,000	7.5%
15,000 - 20,000	10%
20,000 - 30,000	12.5%
30,000 - 50,000	15%
50,000 - 75,000	17.5%
75,000 - 100,000	20%
Above 100,000	25%

To enforce the tax, Georgia tax law provided that persons not complying faced a one to five year prison sentence in addition to a doubling of the tax rate. There seems to be some disagreement among historians about the success of this tax. Seligman says the tax was unpopular and unsuccessful in collecting large amounts of revenue,[23] and though Kennan cites authority which indicates the tax was a great success, he then casts doubts upon these conclusions.[24]

Louisiana first levied its income tax in 1864, on income from "trade profession or occupation." The law allowed a $2,000 exemption and assessed income in excess of the exemption at a rate of one quarter of one percent. While the tax law does not appear to have generated much revenue, it is notable for the 20% penalty provision on any underpayment of the tax.[25]

The income tax of Texas was instituted in 1863. Salary income was the primary object, while other sources of income were subject to the license and occupation tax. The rate of tax on salary income was one quarter of one percent of salary in excess of $500.[26]

The Confederate Income Tax

Its shortage of revenue was so severe by the spring of 1863 that the Confederate Congress passed a comprehensive "national" tax, in addition to the income tax of the various states. This Confederate tax was levied after the Confederacy failed in an attempt to have states collect and remit a 1% property tax on the value of real estate holdings, of slaves owned and of other personal property.[27] This tax act included a variety of taxes, some of which together resemble a modern income tax. The major taxes included an 8% tax on naval stores and agricultural products, a 1% tax on the value of securities and invested capital in businesses and a series of licenses on trades, businesses and occupations, some of which were based on gross receipts. Additionally, a tax on salaries and a tax on income and profits were levied which, if taken together, formed a comprehensive income tax. The tax on salaries exempted those citizens serving in the military and taxed the rest of the population at a 1% rate on salaries of less than $1,500 and a 2% rate of tax on salaries greater than $2,000. Earners of less than $1,000 in wages were not taxed.[28]

The tax levied on income and profit was imposed on all sources of individuals and corporations other than salary. This income tax on profits and income was revolutionary in that it allowed certain deductions from gross income; it was a tax on net income. Because there was considerable reluctance to allow just any deductions, the Confederate Congress carefully specified six categories based on types of income. These specified deductions were as follows:

(1) for income from real estate—a deduction of not exceeding 10% of gross rents for annual repairs is permitted. In the case of houses, the deduction is limited to 5% of gross rents.

(2) for income from manufacturing and mining—a deduction from the gross value of product is permitted for rent, cost of labor and raw materials.

(3) for income from "navigating enterprises"—deductions are permitted from gross value of freight shipped for a reasonable allowance for "wear and tear" not to exceed 10% per annum and also a deduction for the cost of running the vessel.

(4) for income from boat building—a deduction for the cost of labor and "prime cost of materials" is permitted.

(5) for income from the sale of property—a deduction from the gross sale amount for the prime cost of property sold including transportation as well as salaries of clerks and rent of the building is permitted.

(6) for mutual insurance companies, deductions permitted included amounts paid for losses during the year.[29]

The tax rates on the income and profits were as follows:

Income and Profits	*Tax Rate*
$ 0 - 500	exempt
500 - 1,000	5%
1,500 - 3,000	5% on the first $1,500 10% on the excess over $1,500
3,000 - 5,000	10%
5,000 - 10,000	12½%
over 10,000	15%

In addition to the above taxes, corporations and joint stock companies were required to pay a tax based on the amount that profit exceeded a certain percentage of capital. Thus, in structure the tax appears to be a forerunner of the excess profits tax which has been used in modern times to assess companies benefiting from windfalls during war or other emergency situations. The rate of tax was 12½% if the profit percentage exceeded 10% but was less than 20% of invested capital, and 16⅔% if profits exceeded 20% of invested capital.[30]

In the 1863 tax act, the Confederacy instituted one more form of income tax: the "in kind" tax. This "in kind" tax was unique, and represented a clever solution to the complex problems facing the South in its attempt to finance the war effort. The "in kind" tax was a 10% tax on goods and produce, and was payable in goods ("in kind") rather than Confederate dollars. Specifically, it was assessed on the producers of flour, corn, bacon, pork, hay, oats, rice, salt, iron, sugar, molasses, leather, woolen cloth, shoes, boots, blankets and cotton cloth.[31] These, of course, were the very items that were needed by the Confederate Army to fight the war. The tax also solved the problems posed by the barter nature of the agrarian economy, and the depreciating currency which forced up the cost of goods for the Confederate government as well as for the citizens, and also caused citizens to prefer to pay tax with Confederate dollars. It was designed to tax the farmers and planters who were least likely to be subject to the other taxes; in fact the "in kind" tax did not apply to the businesses which were affected by the regular income tax. In addition to those items which were mentioned as assessable by law, there appear to have been some administrative provisions (Confederate Treasury Regulations?) which expanded the list of crops subject to the "in kind" tax to include potatoes, wheat, peas, and beans. The administrative provisions also allowed for an exemption which apparently represented a subsistence amount, so that the tax was levied only upon the excess (disposable) crop. These exemption amounts were fifty bushels of potatoes, one hundred bushels of corn, fifty bushels of wheat, and twenty bushels of peas or beans. The law also provided that the producer was to report to the tax assessor the amount of his goods or crops when they were ready to market; the producer then had two months to deliver the tax to a military depot. If the producer failed to make the delivery, he was assessed an additional 50% of the taxes as a penalty.[32]

In February 1864, the Confederate Congress again met and increased the rates of tax on income by ten percent. Thus the tax for those who had over $10,000 of income was 25%.[33] These high rates begin to approach those of the modern income tax.

The Confederate income tax was generally successful in generating revenues. It is estimated that more than $82 million was collected from the income taxes.[34] This may have been due in part to the citizens viewing the tax as a part of the war effort and thus giving their voluntary support. However, it should also be noted that the Confederacy did set up an administrative system for collecting the tax. For example, taxpayers had to report their incomes annually to the assessor. If the assessor did not believe the report, the assessor and the taxpayer each were able to choose arbitrators; the two arbitrators together decided upon a third, and the majority of arbitrators decided upon the amount of tax.[35]

The Confederate income tax was innovative in taxing net income and in the use of strongly progressive rates. The level of exemption may have been set too high, but the tax was the most successful of all the income taxes of the day in raising revenue. It seems somewhat ironic that the Confederacy would impose a "national" tax; however, this national tax was more successful than the widely avoided federal tax of the Civil War.

In summary, the emergency of the Civil War gave impetus to the development and widespread use of the income tax throughout the South. The need for revenues led to the income tax becoming a broad based tax and the rates of tax reached levels of the modern income tax. The imposition of income taxes at both the state and "national" Confederacy level presented modern problems of "double taxation" of the same tax base. The development of the income tax culminated at this time with the Confederacy taxing net income while the states taxed gross income. The total revenues collected during this period by the states and by the Confederacy were relatively large and it would be many decades before the income tax would be utilized to this extent, by the federal United States government.

The Period of Decline

After the War Between the States (the Civil War), reliance upon the income tax for revenues declined throughout the South. Several states repealed their income tax statutes when the war emergency ended. States which continued to utilize the income tax reduced their tax rates. In addition, those states which continued to keep the income tax on the statute books did not enforce the law; the income tax was thus effectively repealed throughout the South by the turn of the century.

Among the states which repealed the income tax were South Carolina, Georgia, Alabama, and Texas. In South Carolina, the decline of the income tax started in 1865 when salaries were exempted, although rent and other income were added to the income tax base in 1866. However, citizen dissatisfaction with the tax led to its abolition there in 1868.[36]

Georgia also experienced citizen protest over the use of the income tax, which was repealed in 1866 and not reinstituted until the twentieth century.[37]

The tax was slower to die in Alabama. The income tax base was actually broadened in 1866 to a general income tax imposed on total income from all sources. The exemption amount was increased from $500 in 1866 to $1,000 in 1867. The 1866 one percent rate was cut to three-quarters of one percent in 1868. During the 1870s the tax collected from the income tax fell to less than $10,000 per year. Because taxpayer compliance evaporated and citizen protests increased, the income tax was abolished in Alabama in 1884.[38]

The Texas income tax was modified in 1866 from separate taxes on salary and on occupation to a general income tax which included all sources of income including dividend and interest income. The tax rates were progressive, ranging from one to three percent.[39] The modified tax worked so poorly that the tax on all income except salary was abolished in 1870 and the tax on salary was abolished the next year.[40]

The state income tax fell into disuse in Virginia, North Carolina and Louisiana. While they maintained their income tax laws into the twentieth century, the amounts of tax revenue declined throughout the reconstruction period because of tax rate decreases and poor administration and compliance.

In Virginia, the income tax was modified and income was taxed according to the source. A system of six classes of income was devised, and rates ranging from ½% to 3% were applied to the various classes. In 1870, the income tax was again changed and the system of classes of income repealed. Income from property became subject to the income tax for the first time, thereby broadening the income tax base to include rental income and agricultural income. Additionally, the tax base was changed from a tax on gross income to a tax on net income through the allowance of deductions for business expenses and losses. After deducting a $1,500 exemption, net income was taxed at 2½%.[41]

The income tax was again modified in 1874. This time the exemption was decreased to $600 and the tax rate was decreased to 1%.[42] The Virginia income tax statute then remained generally unchanged until after the turn of the century.

In North Carolina, the income tax rate structure was modified in 1866 from a flat rate to a progressive rate structure. The rates ranged from one percent to three and one-half percent. However, this progressive structure was not applied to salary income, which was still subject to a flat rate of tax.[43] The rate structure was reduced proportionally in 1867. The state reinstituted a flat rate of two and one-half percent in 1869, and the rate was further reduced to one and one-half percent in 1870. After 1870, the tax remained unchanged until the twentieth century.[44]

Louisiana's income tax remained intact after the Civil War, and continued virtually unchanged into the twentieth century.

While Virginia, North Carolina and Louisiana maintained their income tax laws, the amounts of revenue collected during the reconstruction years show that the tax was neglected to the point of being effectively repealed. In Virginia, at the end of the nineteenth century, the income tax produced about fifty thousand dollars per year. This was less than one-third of the amount collected in 1863 and only about one and one-half percent of the total state revenue.[45] In North Carolina, the income tax fell into almost total disuse. The income tax revenue collected in 1898 was only $3,876, in 1902 only $18.[46] Louisiana experienced a similar decline. The total amount of Louisiana income tax collected in 1899 was $104.[47] Poor tax administration was the primary reason the tax revenues in Virginia, North Carolina and Louisiana fell so low. Most of the responsibility for tax collection was left to locally elected county commissioners of revenue who generally hated extracting a tax from their neighbors and constituents. This lack of central, state level administration encouraged the lack of compliance in all three states. In Virginia, for example, thirty percent of the counties had no income taxes collected at all in 1900.[48] In North Carolina, during the same period, half the counties had no income tax returns filed.[49] This administrative defect in state income taxes would not be corrected until the twentieth century, after the federal income tax was reintroduced in 1913.

Conclusion

The history of the income tax in the southern United States during the nineteenth century reveals a series of experiments in which the states and the Confederacy sought a satisfactory system of taxing their citizens. During this period the tax evolved from a license and occupations tax into a broad-based income tax. Other modern concepts such as tax equity, the taxing of disposable income, the use of progressive tax rates, the use of the same tax base by the state and national governments, the use of the tax to stimulate and to control business activity and the distinction between a "gross" income tax and a "net" income tax can be seen in the income taxes of the 1800s. Such developments influenced the U.S. federal income tax enacted in 1913.

The income taxes in the southern states were not successful; only during the Civil War were large amounts of revenue collected. The failure of these taxes was due in part to the weak, decentralized administration system which the states used to collect their state taxes, and in part to the lack of popular support. The emergency of war appears to have produced widespread voluntary compliance. It was not until the twentieth century that the state tax administration improved to make the income tax a major source of state revenue.

FOOTNOTES

[1]Seligman, pp. 399-402.
[2]National Industrial Conference Board, pp. 19-20.
[3]Seligman, pp. 402-403.
[4]Kennan, p. 232.
[5]National Industrial Conference Board, p. 20.
[6]Seligman, p. 405.
[7]Kennan, p. 212.
[8]National Industrial Conference Board, p. 87.
[9]Kennan, p. 232.
[10]National Industrial Conference Board, p. 20.
[11]National Industrial Conference Board, p. 20.

[12]Seligman, p. 404.
[13]Seligman, p. 405.
[14]Seligman, p. 406.
[15]Seligman, p. 407.
[16]Kennan, p. 233.
[17]National Industrial Conference Board, p. 88.
[18]Kennan, pp. 210-211.
[19]Kennan, pp. 229-230.
[20]Kennan, p. 213.
[21]Kennan, p. 213.
[22]Kennan, p. 214.
[23]Seligman, p. 412.
[24]Kennan, p. 214.
[25]Seligman, p. 413.
[26]Seligman, p. 413.
[27]Kennan, p. 269.
[28]Seligman, p. 485.
[29]Seligman, p. 486.
[30]Kennan, p. 270.
[31]Kennan, pp. 270-271.
[32]Seligman, pp. 487-488.
[33]Seligman, pp. 489-490.
[34]Seligman, p. 491.
[35]Seligman, p. 487.
[36]Seligman, p. 410.
[37]Seligman, p. 412.
[38]Seligman, p. 410.
[39]Kennan, p. 231.
[40]Seligman, p. 413.
[41]National Industrial Conference Board, p. 21.
[42]Seligman, p. 408.
[43]National Industrial Conference Board, p. 88.
[44]Seligman, p. 409.
[45]Seligman, p. 408.
[46]Bennett, p. 72.
[47]Seligman, p. 413.
[48]Seligman, pp. 414-415.
[49]Bennett, p. 72.

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SPIRALING UPWARD: Auditing Methods As Described By Montgomery And His Successors

Abstract: Audit emphasis this century has swung away from chasing entries through the books to values being "fairly presented" and then back again. Now, however, what was "chasing entries through the books" has become "verifying internal controls." This verification is primary evidence that statement values are fair, and comparison of values to "things themselves" is corroborative evidence. Thus, auditors have not gone around in a circle, but in a radically changing environment they have spiraled upward. These conclusions are drawn from a review of the nine editions of Montgomery's *Auditing* published through 1975 and from the two editions which Montgomery prepared of the Authorized American Edition of Dicksee's *Auditing.*

A 1950 list of auditing methods by the American Institute of Accountants (now AICPA)[1] included (a) analysis and review, (b) observation, including both observation of physical assets and of how clerical employees do their work, (c) confirmation, (d) inquiry, and (e) computation. Compare, cross-reference, examine, investigate, scan, and trace might be added as subitems in the major list. These words also appear in the auditing literature of the early 1900's and of today, but today do we do these things differently? The changed environment of larger masses of data, new means of handling them, increased audit responsibilities and greater understanding, have led to many changes in the use of these methods. Early in the century they were used primarily to trace transactions through the books. Later the emphasis changed to according the account balances with the "things themselves." Now the audit focus is on the integrity of the system for getting the transactions into the financial statements, while additional balance sheet auditing assures that account balances accord with the "things themselves."

This analysis of history is based on the nine editions of Montgomery's *Auditing* plus the two editions of the Authorized American Version, which Montgomery prepared, of Dicksee's *Auditing.* In addition to the main thread, several sub-threads became apparent, such as that of the relationship of auditing changes to the changing environment. This report follows the sweep of history from edition to edition and picks up the various threads as they emerge and re-emerge.[a]

1905: Point of Departure

The year 1905 is the starting point because it is the year of the first of the books, not solely Montgomery's, but his Authorized American Edition of Dicksee's widely used English Auditing text. This American Edition came only nine years after New York State (the first to do so) introduced the designation "Certified Public Accountant." Montgomery stated in his preface that "we find ourselves, therefore, at the very threshold of what may be called a new era in the profession in the United States."[2]

Audit Objectives

The objectives of an audit and their ordering may be compared to today's standards. In 1905 they were listed as:

1. The detection of fraud
2. the detection of clerical errors
3. the detection of errors in principle

Montgomery makes the statement that "the detection of fraud is the most important portion of the Auditor's duties."[3]

Programs, Working-Papers and Instructions

The Audit-Notebook appears to have been a standard audit tool in 1905: printers sold several kinds of bound notebooks. They typically contained printed instructions of a general nature, blank pages for instructions applicable to the particular audit and specially ruled pages for the work done on the various accounts. The text states that the clerk who assumes responsibility should initial his work. Montgomery offered some uncomplimentary opinions about audit organization in which the "clerk is rigidly bound" and asserted how much better it would be "to leave him unfettered with printed instructions [and allowed] to go thoroughly into the whole system . . . and from what he sees let him outline his own method of procedure."[4] Nevertheless, this exhortation was followed by eighteen

[a]The Appendix contains a note on the methodology used.

"Instructions for Audit." They use the verbs obtain, examine, ascertain, report, compare, prove, determine, note, check, and "see-that," but seldom do they tell the auditor what to look for when he examines, how to ascertain, how to check systematically, or what "check" really means.

Tracing Transactions

Tracing transactions seems to have been the major work in an audit. First the auditor was to get a list of all "books" and of all persons authorized to receive or pay out goods or money. Then "calling over" was to begin. One auditor called the transaction from one record to his teammate, who checked it into another. Opinion varied as to how many transactions were to be "called over." One school of thought held that it was the auditor's *duty* to trace *every* transaction back to its first source whereas, in the opposite view, the duty was to see that the balance sheet agreed with the books. No reference was made to the books, being in accord with facts or even to internal consistency. In the middle ground there was room for testing by use of aggregates such as the comparison of the sum of cash recorded as received for a day with the amount of the bank deposit for that day. There is no reference to sampling, namely, examining a few items and inferring that all of the items are equally well (or badly) handled.

The purpose of this tracing was not only to see if the client's accounting was accurate but also to acquaint the auditor with the nature of the transactions and of the system. Montgomery exhorted the auditor to ask "Where is fraud most likely to creep in? . . . If he can find a loop-hole let him be doubly vigilant there."[5]

Other Audit Steps

The major other steps cited are (a) verifying additions, (b) keeping control of a book until all work on it is done and summarized, (c) comparison of opening balances to last year's audited figures, (d) vouching, and (e) comparison to outside sources. Comparison appears to have been far less systematic than it is today. Montgomery did refer to comparing duplicate bank deposit tickets—containing detailed listing of checks—to the bank's copy, comparing the "wages book" to the time clock records (but not to observing if the clock was used correctly). He also stated that confirmation of receivables was "the only satisfactory verification," but it did not become a regular audit procedure until much later.

Montgomery made reference to the new adding and listing machinery used in banks and the consequent abolition of the practice of writing all checks in the customer's passbook.

In the preface to the second American edition of Dicksee's *Auditing*, Montgomery stated that the entire text had been revised, but that no material changes had been made in the general principles, which represented the best thought of the profession here and abroad.

1912: Montgomery's First Edition

Audit Objectives

In the 1912 edition, Montgomery pointed out that the major purpose of auditing was "to ascertain the actual financial condition and earnings of an enterprise for (a) its proprietors . . . ; (b) its executives . . . ; (c) bankers or investors who are considering the purchase of securities; (d) bankers who are considering the discounting or purchasing of its promissory notes."[6] Only under the heading "The Minor Objectives of Audit" did he list the detection of fraud, which had been the primary purpose of Dicksee in 1905 and 1909.

This change in the audit objective is significant. Whether it actually had happened and Montgomery was a good reporter, or whether Montgomery was advocating that it should happen, cannot be determined.

He distinguished between a balance sheet and a detailed audit. Although he provided no definition of these two types of audit until the 1940 edition, we can get a feeling for the meaning of the distinction from the following reference to the detailed audit.

> In all cases where a complete examination is desired or desirable a detailed audit should be made. In those undertakings where there is no satisfactory internal check, the detailed audit is the only one which will cover the income and expenditures for the period under audit . . . .[7]

A balance sheet audit at this time meant, as its name implied, an audit of the balance sheet accounts. If an opinion was to be given on the income statement, a detailed audit seemed to be necessary. Apparently, many audits simply "certified" a balance sheet, by post-year-end examination of the assets and liabilities. Since income statement accounts were period accounts, they could be audited only by examining the details of the entries. Montgomery later states, however, that

> If the auditor has satisfied himself that the system of internal check is adequate, he will not attempt to duplicate work which has been properly performed by someone else. His duty will then be to verify the assets and liabilities, and to make such an analysis of the Profit and Loss Account as will enable him to certify that it has been properly stated.[8]

From this quotation, it seems that the basic distinction lay in the effectiveness of the system of internal control.

The Balance Sheet Audit

Montgomery started the discussion of the balance sheet audit with a list of five "General Principles," as follows:

> (1) . . . all of the assets shown by the books to have been on hand at a certain date were actually on hand.
> (2) . . . whether any other assets, not on the books, *should* have been on hand.
> (3) . . . the liabilities shown by the books to be owing at a certain date were *actual* liabilities.
> (4) . . . whether or not *all* liabilities were in fact shown on the books.
> (5) . . . whether or not the liabilities so shown were *properly* incurred.[9]

Note two things about these general principles. First, they pertain to the books' being in accordance with "facts." Second, there is no reference to the capital account nor to the subsidiary accounts which show changes in the capital account. Montgomery seems to have believed that if assets and liabilities were correct, the difference must be correct, and that if this was true last year and is true this year, then the change, at least in the aggregate, must be correct.

Auditing Specific Balance Sheet Accounts

The audit of cash in bank in 1912 was described in the same words that would be used today: (1) get certificates and statements directly from the bank, (2) reconcile, (3) determine that the balance may be withdrawn.

The audit of accounts receivable (trade debtors) however, began with valuation, not existence. After five pages on valuation Montgomery stated "there is but one absolute method of ascertaining the accuracy . . . [of amounts] due from trade and other debtors, and that is to procure an acknowledgment of the debt from the debtor. This is, of course, impractical in most cases . . . ."[10] Thus, although confirmation was recognized in 1912 as an audit method, we cannot conclude that confirmation of receivables was widely used.

Thirteen rules were given for verifying inventories. The client was to take a physical inventory and then, as rule one, the auditor was to "secure original stock sheets, no matter how rough and soiled they may be."[11] They should be certified and initialed by the persons (a) who "took the stock," (b) who made calculations and footings and (c) who fixed the prices. The second rule was to "see to it" that these certifiers were "dependable and took the matter seriously." Starting with rule three, the rules were more familiar: test calculations; prove footings; ascertain that purchase invoices have been entered for items in stock and amounts for freight included; compare prices with recent invoices; see if quantities are reasonable; compare to prior period; consider saleability of stock; and see if subsequent sales are priced at such a level as to recover costs with a proper margin. Physical verification was not mentioned.

In a subsequent section on goods in process, Montgomery stated the near impossibility of verification in cases where no cost system was in existence. "The difficulty of the task must not excuse the auditor from further inquiry."[12] No further directions were offered. Where there was an "adequate" cost system, the auditor should make a comparison of some of the items "with actual physical inventories."[13] Does Montgomery mean the "rough and soiled stock sheets," or that the auditor should inspect the items himself? One cannot tell.

For accounts payable the first topic discussed was satisfying oneself that all obligations to trade creditors appeared on the books. As in his American edition of Dicksee, the ideal way "would be to read all incoming mail for some days before and after [the balance sheet] date. . . . Unfortunately, the auditor rarely has the opportunity [to do so]. . . . In the absence of this shortcut"[14] Montgomery stated two major items that must be determined: that all payables shown on the books are also shown on the balance sheet and that all actual payables, even if not shown on the books, are included among the liabilities. He did suggest determining if all payables shown on the books were truly liabilities of the client. As a check, he advocated comparing balances with the statements from these creditors and examining receiving reports for the period immediately preceding the balance sheet date.

In his discussion of the detailed audit, Montgomery lists two "General Principles . . . which govern the detailed audit of income and expenses:

(1) . . . earnings shown by the books are properly accounted for and whether . . . any are omitted

(2) . . . expenses and losses are properly stated and supported."[15]

Contrary to the practice of not many years before (and perhaps even of 1912) Montgomery stated "the least important part of the audit is the verification of postings and footings . . . . It will have to be a very small business indeed where there can be any justification for verifying every posting and every footing. . . . An analysis . . . demonstrates the fact that the percentage of frauds which have been concealed by false postings and incorrect footings is small."[16]

Basically, the detailed audit which Montgomery recommended was a thorough review of an internal control system such as would be performed today. The steps in auditing that system included, among others,

(1) inquiry made or personal watch kept to see who opens the mail and what record is made

(2) ascertain that all cash sales are accounted for [Montgomery did not suggest a *method* to use in order to "ascertain"]

(3) compare some order books to ledgers

(4) test, for a few days, cash discounts

(5) confirmation of accounts receivable ("Every year the objections to this practice grow less, and no doubt within a few years verification of customers' outstanding balances by correspondence with the auditor will be the rule rather than the exception.")[17]

(6) schedule all securities owned and ascertain that all interest or dividends have been collected.

The list continues with many steps still being performed in auditing internal controls.

The final chapter on the detailed audit focuses on assets and liabilities and the procedures seem to be the same as those set forth for the balance sheet audit.

In summary the audit of 1912 was different from that of 1905. The same tracing and footing were done, but to a lesser extent. Although there was some emphasis on external evidence, there was a strong tendency to rely on internal record-keeping and documentation without comparing balances to facts.

With this observation, it is possible to skim through subsequent editions for subtle indications of change. The exact year may be difficult to pinpoint, but the broad sweep and changing business environment can be observed.

In the preface to the second edition (1916) Montgomery stated that "No radical changes have occurred in [auditing] theory or practice . . . . The income tax has come to stay."[18] In recognition of the arrival of the income tax, Montgomery included material on it, later removed from the 1920 reprint of this edition to a separate tax book.

1921: Effect of World War I

Between 1916 and 1921 the United States went to and returned from war. There were radical changes in the economy. Many firms prospered, many failed, and some prospered mightily and then failed. There were significant fluctuations in prices. "The profession met the test of war and inflation and has tremendously increased in prestige."[19] Economic conditions put pressures on auditors to accept new disclosure and valuation principles to "improve" clients' apparent results.

In spite of great economic changes, the increased prestige of the profession, and added client pressures, no changes in audit methods were apparent in the 1921 edition. There were, however, some changes in emphasis. No longer was there, as in 1905, a list of audit procedures. Instead, as Montgomery stated in the preface, "As a whole this book purports to be an audit program, but it is general, not specific, and leaves something to the skill and imagination of the auditor."[20] "At the outset the auditor should carefully read the schedule of assets to be verified and then outline a definite plan."[21] These two concepts (leaving detail of the audit up to the skill of the individual and having him make a definite program), although not new, seemed to become increasingly important from edition to edition.

Another increased emphasis was on reliance on "internal check." A whole chapter on this topic, though brief, now appeared. Its location, before the first chapter on the balance sheet audit of cash, indicated Montgomery's view of its importance. He even went so far as to say "[I]t may be that a complete system of internal check will make it unnecessary for the auditor to visit the branch office, although such cases are rare."[22] This was a major change from fifteen years earlier when, at best, there was a grudging acceptance of auditing some (as opposed to all) transactions in a block.

A third increased emphasis can be seen from two of Montgomery's statements. One extends the concept of an audit. Its basis should be the "connection between the entries supporting the asset accounts and the *things themselves* [emphasis his]."[23] The second statement is that "an entry on the books which purports to record an asset is *nothing more* than a *book* record and that there can be no good excuse for accepting such an entry as final [emphasis his]."[24] This emphasis on the things themselves and "nothing more than a book record" did not, as might have been hoped, lead to instructions to confirm balances owing or observe physical assets. The same inventory rule as in previous editions still came first: "secure the original stock sheets, no matter how rough and soiled they may be."[25] Later, however, in the numbered list of inventory steps, the next to last was the clear-cut command "[S]elect some items from the inventory sheets and verify by inspection of the goods on hand."[26] Confirmation of all receivables and inspection of all physical assets were not yet generally accepted auditing procedures.

1927: Time of Prosperity

In the preface of his fourth edition of 1927 Montgomery drew attention to two major events affecting auditing since the previous edition in 1921. First, the preoccupation with the effects of the war and immediate post-war problems had abated. Second, there had been a large increase in the volume of trade. Montgomery foresaw challenging opportunities for the profession in more comprehensive auditing and in other services. With pressures on the first four months of the year, he saw two ways for rendering a more comprehensive service: by doing more in some directions and less in others, and by doing substantial work before year-end.

The suggestion to do more before the year-end and less afterwards was not a change in audit method; it was a change in emphasis. In this edition there were two other significant changes in emphasis.

One change related to the confirmation of receivables. In this edition, Montgomery gave the method a paragraph heading of its own saying "[i]t is difficult but not impracticable. Whenever the opportunity exists, the auditor should verify the correctness . . . by requesting confirmations . . . ."[27] He promptly diluted this strong statement by saying "or at least he should inform the debtors what amounts are standing to their debit so that they may have an opportunity to call attention to any inaccuracies."[28] (Or, instead of a dilution, is this a first reference to negative confirmations?)

The other change was toward observation of inventory taking. In the 1921 edition there was, in effect, a single statement about selecting a few items from the inventory sheets for audit observation. In the 1927 edition there was a paragraph headed "When the auditor supervises the inventory taking."[29] The steps taken to control the inventory taking were essentially those that we would follow today. Was the use of the word "supervise" instead of "observe" merely because the niceties of the distinction had not yet been worked out, or was the auditor at that time doing what today would be considered the client's work?

Among the other evolutionary items, with respect to land titles, Montgomery was more specific about the documents to be obtained and what those documents should contain; for example, a letter from an attorney or a title company, properly signed, stating that title was in the name of the client and whether encumbered.

Referring to "tests" Montgomery explained that these meant

> 1. To try by subjecting to some experiment or by examination or comparison; to subject to conditions that disclose the true character,
>
> 2. An examination made for the purpose of proving or disproving some matter in doubt.[30]

"Tests" do "eliminate unnecessary and time-consuming work and . . . substitute necessary and constructive work."[31] Sampling, as we use the word today, might or might not be suggested by his first explanation. There was no hint that *statistical* sampling was included.

1934: Results of Boom and Bust

The period between the 1927 edition and the 1934 edition was marked by the end of the economic boom and the still unequalled depression. Montgomery stated

> Owing to the fact that for nearly a third of a century the general trend of basic commodity prices and other elements of manufacturing and construction costs was upward, appraisals during that time quite generally reflected values greater than cost. In recent years, however, many businesses have found that present replacement values were so much lower than those at which their plants were

> carried on their books, that they have written down their book values to place them on the basis of current reproduction costs.[32]

An example was Goodyear Tire & Rubber Company which reduced Capital Surplus by four million dollars upon reduction of "appreciation of land" and "unrealized appreciation in subsidiary company property accounts." Although there may have been a tendency for accountants and auditors to be criticized for these changes in valuation, the profession increased its prestige during this period.

Two statements in the 1934 edition relate to the increased responsibilities being accepted by the auditor. The first was that "[t]he balance sheet and the detailed audit are considered together."[33] This is a strong clue that the auditor was taking responsibility for the details of the increment in owners' equity from one period to the next, and that emphasis was not solely on balance sheet auditing.

The second was with respect to inventory. In the 1905 edition, Dicksee and Montgomery had referred to a leading English dictum: "where circumstances . . . are not such as to arouse the suspicions of an ordinarily capable and diligent Auditor, he is justified in relying upon the valuation of stock-in-trade which has been certified to him by the manager. It is altogether likely that American decisions will follow this general rule."[34] In the 1934 edition, however, Montgomery stated "in the majority of cases the auditor can make, at a reasonable cost to his client, such an examination as will enable him to certify to the balance sheet without qualification and to accept a reasonable degree of responsibility with respect to inventory."[35] The examination necessary in order to take responsibility does not specifically include observation of the physical inventory-taking.

Several points worthy of note indicate a changed application of traditional auditing procedures

1. Montgomery combined, as stated previously, the discussion of the balance sheet and the detailed audit.

2. The client's employees are "preparing lists." Montgomery says "obviously the auditor should avoid all clerical work which is not absolutely necessary."[36] This is a distinct step forward from the position set forth in the 1905 work, where he stated that a client's clerk instead of the auditor "might" prepare the trial balance.

3. In the 1905 edition there was a reference to relying on output from adding and listing machines. In 1934 there is a reference to tabulating machines and possible errors in punching cards, and to the danger of omitting or duplicating a card.

4. The use of block sampling with respect to accounts receivable confirmations was referred to.

5. Whereas in the 1927 edition there was an oblique reference to negative confirmation, in this edition there is a full discussion of affirmative and negative confirmation. "No doubt within a few years the verification of customers' outstanding balances by correspondence with the auditor will be made the rule rather than the exception."[37]

6. With respect to investments which should have been on hand all year, Montgomery recommends now that serial numbers beginning and end of year be compared for a few representative items.

1940: Response to Regulation

In the sixth edition of 1940, only six eventful years after the fifth, Montgomery referred to the "enormous output of rules, regulations, and good advice emanating from state and national agencies."[38] In 1934, the year of the fifth edition, the impact of recent regulations could hardly have been foreseen, but the effect of the last seven years shows up in the sixth edition. Such laws as those creating the Securities and Exchange Commission and spelling out its duties, and those regulating wages and hours and working conditions, affected both business and the accounting profession. Some members of the profession asserted that the security laws placed such burdens on auditors that they would not be able to survive. It was a period of rapid movement forward along trends which had been started earlier. One important event was the McKesson and Robbins case in 1938.

The McKesson and Robbins disclosures showed very clearly that the fraudulent practices would have been disclosed several years earlier if the auditors had confirmed receivables with the debtor and had observed the inventory. The Committee on Auditing Procedure of the American Institute of Accountants issued its "Extensions of Auditing Procedure" less than a year later. It said that where practicable, reasonable, and material the direct communications with the debtors become regarded as generally accepted auditing procedure. Similarly, the auditor must be present at the inventory taking and by suitable observation and inquiry satisfy himself as to the effectiveness of the methods of inventory taking. In addition he may require physical tests of inventories to be made under his observation. The profession generally interpreted the requirements to be ones that must be met in all cases unless the auditor could defend his decision that confirmation or observation was not practicable, reasonable, and material. Not until nearly thirty years later was there a relaxation of the Institute requirement that its members state the omission in the scope area of their opinion letters.

For the first time, Montgomery provided a definition of the balance sheet audit.[b] The balance sheet audit specifically included the review of the system of internal control and covered not only balance sheet accounts but also the income and "surplus" statements. The last part of the definition resembled the wording of the audit opinion. Consistency within the period was required, leaving out consistency with prior periods.

Whereas in the previous edition the auditor supervised the inventory taking, he now became an observer. The securing of "the original stock sheets, no matter how rough and soiled they may be . . . ." was fourth instead of first among the inventory instructions. First was "[i]n advance of the inventory taking, obtain copies of the client's inventory instructions to its employees . . . ."[40] Not only did this place the auditor as observer but also it gave him a chance to request the changes if the inventory was not planned properly. There was a several page section on "corroboration by physical test and observation."

Montgomery expanded the section on auditing records in the form of punched cards. He concerned himself with mispunched, omitted or duplicated cards, as he did in 1934, as well as with whether or not the equipment added correctly. His suggested method was to compare the machine total to a hand-generated total of a test group of cards.

1949: World War II

During the period between the editions of 1940 and 1949, the United States had experienced World War II. There had been many

[b]Note that the definition is different from what it seemed to be in 1912. [A] "balance sheet" audit means the minimum examination of the financial statements, system of internal control, accounting procedures, accounting records, and other supporting evidence, which the auditor believes is appropriate in the particular case and in accordance with generally accepted auditing procedure to enable him to express an opinion as to the position of the company, the results of operations for a period, and the conformity of the balance sheet and statements of income and surplus with generally accepted principles of accounting consistently applied.[39]

changes in the measurement of income subject to tax, which produced new accounting methods, but with respect to auditing methods, little change is apparent, only a change in emphasis.

During this period, when so many young men went into the armed services, there was a tremendous shortage of personnel to do the "dog-work" of auditing, the detailed footing and ticking. As yet, few women had entered public accounting. The clients' bookkeeping departments were also short of staff. This labor shortage not only accelerated the adoption of bookkeeping and tabulating machines, but also it accelerated the trend toward reliance on internal control.

Audit emphasis on internal control is evidenced in the book by a restructuring of the chapters on the audit of the balance sheet. The typical chapter was divided into four major parts, the second of which was "Internal Control," and the third, "Auditing Procedures." In addition, a seventy-three page appendix of internal control questionnaires for many types of business was supplied; the first one, (twenty-three pages) was for industrial and commercial businesses. The emphasis on internal control affected "the technique of auditing, but not the fundamentals of auditing procedure. . . . [The auditor] must thoroughly understand the way the [bookkeeping or tabulating] machine operates . . . [and] know at what points errors may arise, how they are revealed mechanically, and how they are corrected."[41]

In addition to the emphasis on internal control there were required more analyses of trends, tests of reasonableness, tests of relationships, understanding of the business, and hard thinking about what really needed to be done. During the war the closing of plants for a week of inventory-taking was severely curtailed, as President Roosevelt had ordered war plants to keep producing and said that if bookkeepers couldn't find another way, they would just have to do without; the boys at the front needed supplies. Now the client (in taking inventory) and the auditor (in observing inventory) had to develop methods to count without a complete shutdown. Evidence of their success is that after the war, although some plants went back to the annual inventory closing, many did not.

Statistical sampling was used heavily in production quality control during the war but for auditing statistical sampling was still a new idea, and its time had not yet come.

1957: Years of Stability

The eight years following the 1949 edition were not ones of war or radical economic change. The lull in the pressure "to put out fires" gave auditors (and authors) time to recognize the basic evolution of accounting principles and auditing procedures, and the expanded services provided by the public accounting profession. The eighth edition of *Montgomery's Auditing* in 1957 was authored by Lenhart and Defliese, Montgomery having died in 1953.

Although the computer had arrived, and accountants were just beginning to utilize it, it was not yet a factor in audit methods. In fact, discussion of the computer in this edition was in the "Management Services" chapter where it was covered in a section on electronic data processing. The authors' comment was "The speeds with which this equipment can process coded information are so great that the effects on record-keeping cannot be foreseen at present."[42]

Although this 1957 edition was substantially revised with respect to accounting principles and other professional matters, it did not contain any changes in auditing methods, which generally accepted auditing standards had begun to codify. A questionnaire in the appendix suggested some changes that presaged the radical changes in focus and organization of the audit that were to occur in the next edition, for example, control questions on sales, operating revenue, and receivables were brought together in a single section.

1975: The Computer Age

The ninth edition of *Montgomery's Auditing* (1975) was by Defliese, Johnson and MacLeod, three partners of Coopers & Lybrand, the multinational firm formed by the combination of Montgomery's U.S. firm with United Kingdom and Canadian firms. Coupled with the growth in the scope and size of firms (both client and audit) there was the virtual takeover of the bookkeeping functions by the computer. The computer brought speed and efficiency in data handling, and the ability to generate many new reports which previously would have cost more than companies were willing to spend.

There was thus a major rethinking of the whole audit process. Generally Accepted Auditing Standards began to be published by the AICPA in 1954; they had appeared seven years before with "Tentative" in the title. By the 1975 edition, these Standards had received widespread recognition and acceptance, and they received major consideration in the early chapters of this edition. The field work standards for evaluating internal control and obtaining competent evidence might be said to form a basis for what followed with respect to auditing methods. The discussion of the use of the methods was sharpened and the organization for applying them substantially altered in this edition.

The new organization was tied to the newly recognized theory revolving around the term "competent evidential matter." The underlying evidence consisted of compliance tests of the transactions to learn of compliance with a previously approved system of internal control. Together these led to the concept of "sufficient competent evidential matter" as required by the generally accepted auditing standards. Corroborative evidence consisted of various evaluation procedures and analytical reviews. Basic tests of compliance involved transactions, and the ninth edition grouped the transactions into segments: revenue, buying, production, property, income tax, cash, and financing. For each segment the auditor must set forth objectives for the system to achieve, determine what controls the client used, and whether or not they would be effective if in use, and then test to see if the controls actually were in use. Auditors must see that the results are in accord with the "things themselves," by going outside the books to seek corroborative evidence, as summarized on the diagram on page 108 of the book. Common procedures for gaining such evidence are confirming accounts receivable by correspondence with debtors, seeing documents, and observing inventory.

The new bookkeeping tool, the computer, has brought with it the need for radically increased controls, very different from those used previously. The organization of these controls is according to integrated transaction cycles. The auditor must learn the controls the client has planned and confirm that they are operating. There is extensive discussion of the various tests of disciplinary controls, application controls and error controls ("Controls are useless unless errors detected are themselves controlled, examined and properly disposed of."[43]) In the audit of computer data, the auditor may use generalized audit programs (often prepared by the audit firm), specialized programs written for the specific audit purpose of the particular client, or even the client's programs "but only after he has thoroughly reviewed the program logic so that he has the requisite assurance that the program [will] perform the procedures he has specified."[44] To the extent that items selected for examination by these programs were selected at random, statistical inferences can be made about the whole with mathematically defined risk and materiality levels. Although there is a major section headed "Limited Role of Statistical Inference in Auditing," a twenty-one page appendix describes Statistical Sampling Procedures. Nevertheless, the auditor's intuition and judgment are still important. Now they are used to set specific standards of materiality and risk.

Recapitulation

From this account of successive editions of Montgomery's *Auditing* it can be seen that the auditor has responded to the changes of society with changes in concepts and methods.

Early in the century, auditors began to realize that financial statement figures must relate to things themselves; merely chasing transactions through books was not enough. The movement to verify the balance sheet amounts grew so strong that tracing transactions became an unimportant audit step. At some point in the century a swing started toward internal control and systems auditing. The emerging theory of auditing lists transaction auditing as primary audit evidence and account balance as corroborative audit evidence.

Throughout all of this evolution of auditing, the basic methods of auditing have stayed the same. Emphasis in applying them swung from transactions to balances and then back to transactions. Auditors, however, did not leave transactions for balances and then move back to transactions. They verified balances and did the transactions work in increasingly sophisticated ways. This I call "spiraling upward."

APPENDIX

A Note on Sources and Historical Research

My source for this study was a complete set of Montgomery's *Auditing* including: (1) *Dicksee's Auditing,* Authorized American Version by Montgomery, 1905 and a revision in 1909, (2) *Auditing* by Montgomery (1912, through seven editions to 1949) and (3) two editions of *Montgomery's Auditing* by certain partners of Lybrand, Ross Bros. & Montgomery (now Coopers & Lybrand).

Some researchers, such as E. Peragallo and W. E. Stone have used original account books, and have drawn observations and generalizations from their contents. They have used primary sources. Other researchers use secondary sources, as I have done. Users of secondary sources base their thoughts and generalizations on observations of others.

In this research I have confined myself to the writings of Montgomery, to be sure, a limited set of observations. It does have an advantage other than economy of effort. Changes in Montgomery's statements from one edition to another can probably be more truly ascribed to changes in circumstances than to changes in the observer. Montgomery, though subject to human frailties and to personal growth, was one person, and, therefore, inconsistencies of observation can be excluded.

I had considered reviewing old working papers of some of the audit firms. I have had some interesting conversations about doing so and some pledges of help. But I ran into problems, primarily of record retention; many of the firms have a policy of destruction on a planned schedule. The older papers are just not available. Again, it is the successful firms that have remained in business and whose records might be available (except for the planned destruction). What the unsuccessful firms did would not be available in any case.

Old audit manuals may exist. One firm approached could not come up with any of its old ones. If ever these get into a library open to the public, I did not find any. Even if I had the audit manuals, they would show me what the auditors should have done, not what they did do.

After reviewing possible sources of material other than the set of Montgomery's *Auditing* I am convinced that there remains very little evidence of what auditors do and that other hortatory works, outlining what the auditors should do, were similar to Montgomery's but lacked the consistency of the single author.

FOOTNOTES

[1]American Institute of Accountants, pp. 28-29.
[2]Dicksee, 1905, p. 8.
[3]Dicksee, 1905, p. 23.
[4]Dicksee, 1905, p. 19.
[5]Dicksee, 1905, p. 24.
[6]Montgomery, 1912, p. 9.
[7]Montgomery, 1912, p. 80.
[8]Montgomery, 1912, pp. 82-84, emphasis his.
[9]Montgomery, 1912, p. 87, emphasis his.
[10]Montgomery, 1912, p. 100.
[11]Montgomery, 1912, p. 107.
[12]Montgomery, 1912, p. 110.
[13]Montgomery, 1912, p. 110.
[14]Montgomery, 1912, p. 149.
[15]Montgomery, 1912, p. 247.
[16]Montgomery, 1912, p. 248.
[17]Montgomery, 1912, p. 263.
[18]Montgomery, 1916, p. viii.
[19]Montgomery, 1921, p. iii.
[20]Montgomery, 1921, p. iv.
[21]Montgomery, 1921, p. 78.
[22]Montgomery, 1921, p. 68.

[23]Montgomery, 1921, p. 78.
[24]Montgomery, 1921, p. 73, emphasis his.
[25]Montgomery, 1921, p. 162.
[26]Montgomery, 1921, p. 168.
[27]Montgomery, 1927, p. 115.
[28]Montgomery, 1927, p. 115.
[29]Montgomery, 1927, p. 153.
[30]Montgomery, 1927, p. 523.
[31]Montgomery, 1927, p. 523.
[32]Montgomery, 1934, p. 281.
[33]Montgomery, 1934, p. iv.
[34]Dicksee, 1905, p. 166.
[35]Montgomery, 1934, p. 180.
[36]Montgomery, 1934, p. 161.
[37]Montgomery, 1934, p. 153.
[38]Montgomery, 1940, p. iii.
[39]Montgomery, 1940, p. 8.
[40]Montgomery, 1940, p. 134.
[41]Montgomery, Lenhart and Jennings, 1949, p. 39.
[42]Lenhart and Defliese, 1957, p. 560.
[43]Defliese, Johnson, MacLeod, p. 170.
[44]Defliese, Johnson, MacLeod, p. 173.

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THE EVOLUTION AND CURRENT STATE OF FINANCIAL ACCOUNTING CONCEPTS AND STANDARDS IN THE NONBUSINESS SECTOR

Abstract: This article presents a condensed history of significant post 1900 developments in nonbusiness financial accounting practices and standards, and highlights some of the major issues in the recent increase in interest and activity in nonbusiness accounting. It includes consideration of federal, state, and local government units along with various types of nongovernmental nonbusiness entities. The initial section of the article traces both the development of fund accounting techniques and the discovery of their inadequacies. Next, the article discusses developments in standard-setting and the search for a sound theoretical foundation. Finally, it presents a current profile of nonbusiness accounting. The article implies that nonbusiness accounting can no longer be treated as a secondary consideration. The nonbusiness sector is a major component of the environment that requires sound financial accounting and reporting standards and practices.

Introduction

During the past decade there has been an accelerating intensity in the study of accounting and financial reporting standards for not-for-profit entities. The current interest represents a change from the past when (1) only secondary importance was accorded these entities by financial accounting standard-setting bodies, and (2) standard-setting for such entities was completely separate from standard-setting for profit oriented entities. These changes came naturally as larger amounts of resources were channeled to not-for-profit entities.

This article contains three sections. The first part provides a general overview of the post 1900 evolution in not-for-profit financial reporting. The second section discusses significant issues relative to what has been referred to as a revolution in financial reporting practices and standards for not-for-profit institutions. Two primary issues dealt with are (1) the effort to develop a conceptual framework or constitution for financial reporting and standard-setting and (2) the important developments in the mechanics of the standard-setting process. The third section describes recent events and the present status of not-for-profit financial accounting. The emerging issues appear to be whether profit oriented and not-for-profit reporting will be consolidated under one framework and whether there is to be continued separation of the standard-setting process.

Terms used to describe entities outside the business sector include: philanthropic, nonprofit, not-for-profit, nonbusiness, and others. The Financial Accounting Standards Board (FASB) has elected to refer to them collectively as "nonbusiness,"[1] and this term will be used throughout this article.

Part I: Post 1900 Evolution

Introduction

The evolution of nonbusiness accounting in the United States began around the end of the 1800s. The beginning of interest in the area can be attributed to the fact that by the mid 1890s, urban areas were growing three times as fast as rural areas.[2] This surge of expansion required improvements in administration and in control of information. Over the years, governmental and nongovernmental accounting have been closely linked. As a result, fund accounting techniques that were developed principally by governmental units became generally accepted in the entire nonbusiness sector. As commonly practiced, fund accounting has provided a record of management's actions in terms of funds received and disbursed. This approach evolved from the trustee type of relationship between managers and sponsors of nonbusiness entities. In other words, stewardship became the focal point of the traditional fund accounting model.

Since little in the way of nonbusiness accounting systems developed earlier than the turn of the century, the history of governmental and institutional accounting can be considered to have begun around 1900 with many poor and underdeveloped practices carried forward in spite of their inadequacies.[3] Governmental nonbusiness units led the way in forming the budgetary systems that became a significant part of fund accounting techniques. The following paragraphs trace the evolution and development of nonbusiness accounting on a decade by decade basis.

Early Developments

Codifications of basic municipal accounting principles appeared around 1910; the most notable being the *Handbook of Municipal Accounting* by the New York Bureau of Municipal Research in 1913.[4] According to Dahlberg, the Bureau was born in 1906 out of the needs of the times, especially the need to develop methods of assisting the poor.[5] It was the first organization to direct its efforts exclusively to the problems of city government. Also during this decade, several states developed budgetary systems for operations and control.[6] Thus, local governments, rather than the federal government, took the lead in the earliest development of principles of accounting for nonbusiness entities. Budgetary accounting systems developed and codifications of principles appeared, yet concerned parties debated the merits of accrual versus cash basis accounting in municipal systems; and many nonbusiness entities emulated a fairly well established commercial accrual accounting model.[7]

In the 1920s the first significant literature on governmental and institutional accounting appeared.[8] This literature formed the foundation for the field and stimulated more interest in the area. The Federal Budget and Accounting Act was passed in 1921. This legislation led to adoption of formalized budgetary practices at the federal level, but was ineffective in development of sound accounting and auditing practices.[9] The Act created the Government Accounting Office (now the General Accounting Office or GAO) and the position of Comptroller General (appointed by the President and accountable to Congress) with the responsibility for all accountancy, including standard setting, at the federal level. Additionally, the Act created the Bureau of Budget (now the Office of Management and Budget) and assigned the Bureau responsibility for assembling all departmental appropriation requests for presentation to Congress.

Through these early years, developments in nonbusiness accounting were spotty. Different levels of government plodded along, each at its own pace, each with its own interpretation of accounting and recordkeeping procedures. The financial reporting abuses that were brought to public attention by the securities market crash led to demands for development and use of sound accounting practices in all sectors of the economy. At the time, R. P. Hackett wrote that: "We must satisfy ourselves as to where the fault lies in the retarded development of this (nonbusiness) branch of accounting."[10] Hackett cited several examples of inadequate fund accounting systems employed by municipalities and other nonbusiness entities that resulted in poor, misleading, or incomplete information being provided by those entities. He concluded that such an undesirable state of affairs was due to the American Institute of Accountants' (predecessor of the American Institute of Certified Public Accountants, i.e., AICPA) lack of interest in the area of governmental and institutional accounting and to inadequate university curricula. Few if any courses were taught, and texts on the subject were scarce.

By the late 1920s, nevertheless, the custodial function of nonbusiness management came to dominate the approach to nonbusiness accounting. The commercial accounting model for nonbusiness entities fell into disfavor and the receipts/disbursements approach of fund accounting became more widespread.[11] Still, generally accepted accounting principles for nonbusiness financial accounting had not been formulated and implemented. In a 1926 speech, Lloyd Morey, a major contributor to early nonbusiness accounting thought, asserted the following: "As I observe the methods followed in keeping public accounts . . . I am always impressed by the apparent failure to discern their true functions and consequently the correct principles which should be followed in their operation. It has often been arbitrarily and, I believe, incorrectly assumed that the procedure commonly followed in accounts of private business can be applied without material modification to public accounts."[12]

In the 1930s the National Committee of Municipal Accounting (NCMA) was formed under the auspices of the national organizations of public accountants and public finance officials.[13] The NCMA was the first nationwide effort to establish nonbusiness accounting principles and standards to replace previous parochial efforts.[14] The Committee was spawned from many concerns including bond defaults, the Depression, and federal government interference in state and local affairs, pressure exerted by the Securities and Exchange Commission (SEC).[15] The NCMA compiled two documents, "Municipal Accounting Statements"[16] and a set of "Municipal Audit Procedures."[17] These publications had a significant impact on conceptual and practical viewpoints in municipal and other nonbusiness fields. They suggested acceptable basic accounting principles, formats for financial statements, and procedures for independent audits.

At the federal level, jurisdictional in-fighting among the GAO, Treasury Department, Bureau of Budget, and other agencies over responsibilities concerning accounting functions resulted in a lack of uniformity in federal financial reports. These conflicts led to a preoccupation with detailed voucher examinations and verifications centering on procedural compliance and legality rather than to concern for providing anything resembling useful management information.[18] Thus, by the late 1930s, federal accounting lagged behind development at the local level.

In the nongovernment sphere, college and university officials formed a study group which published basic standards of financial accounting and reporting for their institutions. Also, educators began to change their attitudes toward nonbusiness accounting. College courses in governmental and institutional accounting appeared, as did research studies and publications on the topic, including a number of needed texts on the subject.[19]

Federal legislation provided major impetus for the development of governmental accounting in the late 1930s by dramatically increasing the volume of information to be processed and reported at the state and local levels. The Social Security Act, projects administered by the Works Progress Administration and the Public Works Administration, old age assistance programs, unemployment compensation programs, etc., prompted the refinement of information systems.

An Era of Progress Emerges

As the nation recovered from the Depression and approached the war years, growth in many segments of the nonbusiness environment signalled the inadequacies in accounting and reporting systems. The growth and rising importance of the nonbusiness sector is evident in the percentage of Gross National Product (GNP) accounted for by the nonbusiness sector of the economy. Between 1929 and 1940, the percent of GNP accounted for by the nonbusiness sector increased by about 50%, changing from 12.5% to 18.5% of GNP. Between 1940 and 1960 this percentage increased by about another 40%, changing from 18.5% to 25.8% of GNP. An additional 5% increase occurred between 1960 and 1970 when the nonbusiness sector accounted for 27% of GNP.[20] From the 1930s to the 1970s, the foundations upon which today's procedures are based were established and developed.

The 1940s proved to be an extension and expansion of developments that began in the 1930s. The principles posited by the National Committee on Municipal Accounting were refined and strongly promoted, resulting in their widespread acceptance and use. The

Municipal Finance Officers Association (MFOA) supported these principles and supplemented them with its own publications and research studies. During this era, municipal accounting made great strides to overcome its deficiencies, and there were spillover effects accruing to slower moving county and state units.[21]

At the federal level, the budgetary approach was, by now, firmly entrenched and was being strengthened. The GAO, as a result of new legislation, established a Corporation Audits Division which introduced workable methods for auditing government corporations (e.g., the Tennessee Valley Authority). This led to a growth in accounting expertise within the GAO and there was an influx of CPAs to its staff.[22] While most agencies and departments within the federal government had developed adequate accounting procedures, there was no basic source or focal point of financial information drawing all of the segments together to present a single complete report for the entire government. Even though many problems plagued accountancy at the federal level, a newly appointed Comptroller General was able to promote cooperation within the federal government. As a result, the heads of the GAO, Treasury Department, and Bureau of Budget formed a Joint Accounting Improvement Program (JAIP) which recognized the need for uniformity, central direction, and consolidation of efforts. Also, Congress created the Commission on Organization of the Executive Branch (the Hoover Commission) to study the organization of government agencies.[23] The efforts of these groups came to fruition in the early 1950s.

The accounting profession began to take on a more conspicuous role in government accounting in the 1940s. The American Institute of Accountants created a Committee of Federal Accounting in 1947 to work in cooperation with the Hoover Commission. As further evidence of the profession's interest, the Certified Public Accountants (CPA) examinations began to include questions concerning governmental and institutional accounting, and colleges and universities began to offer elective courses on governmental accounting.[24]

Morey summed up the situation as of the end of the 1940s:

> There is no longer any doubt as to what constitutes good accounting, reporting, and auditing for public bodies. The work of the National Committee on Municipal Accounting in particular, in establishing standards and models in these subjects, provides an authority to which officials, accountants, and the public may turn with confidence. Like any

> other body of standards, these materials need to be constantly re-examined as to their continuing validity.[25]

Basically, traditional fund accounting was in full swing by the end of this decade.

The Winds of Change

Until the 1950s, however, many nonbusiness (especially nongovernment) agencies were relatively small and received a great share of their support from wealthy patrons.[26] Beginning in the 1950s, a shift occurred whereby a good deal of support began to flow in from corporate donors, government sponsorship, and from increased contributions by the middle class. The support base for nongovernmental nonbusiness organizations grew, and according to a 1977 Treasury Department report it reached a level of $80 billion by the middle of the 1970s.[27]

A shift in accountability accompanied the shift in support. A growth in demand for information evolved with the growth of nonbusiness organizations and the expanded support base. As the sources of support became more diverse, donors began to insist on more information about the activities and use of resources entrusted to fund managers. Existing reporting standards were designed to satisfy a handful of donors. Thus, the informational output of then contemporary fund accounting procedures proved to be inadequate because it focused mainly on fiscal compliance, i.e., whether spending limitations were being adhered to. Output did not enable users to ascertain whether entities could remain or be financially viable; there was little information on efforts and achievements of specific programs; and, seldom was there any indication of the effectiveness of management performance. The widespread demand for these types of information was in the embryonic stages.[28]

The epicenter of change in the nonbusiness sector in the 1950s rested at the federal government level. As a result of the Hoover Commission and the JAIP, a bevy of legislation was passed, most notably the Budget and Accounting Procedures Act of 1950. This Act required managers of all federal departments to implement and maintain systems of internal control. It also called for the implementation of accrual accounting and assigned the responsibility for establishing federal accounting and financial reporting standards to the GAO.[29]

The GAO published its first accounting principles from 1952 through 1957 in memorandum form. These principles were based on the generally accepted accounting principles (GAAP) developed by the Committee on Accounting Procedure of the American Institute of Certified Public Accountants in its Accounting Research Bulletin series. In late 1957, the GAO combined all of these memoranda in a manual entitled "Title II," in which it incorporated definitions, reporting requirements and formats, descriptions of internal control systems, etc. Title II requirements changed in the 1960s from being very detailed in prescribing recording methods and formats to being general in terms of the information to be compiled by various agencies.[30]

The Seeds of a "Revolution"

The 1960s ushered in the development of industry accounting manuals developed by nonbusiness industry groups (hospital associations, museum groups, college and university organizations, etc.). These manuals addressed each group's specific problems and had limited application. In 1968, the National Council on Governmental Accounting (NCGA), the present successor of the National Committee on Municipal Accounting, published what is known as the blue book, "Governmental Accounting, Auditing, and Financial Reporting" (GAAFR) which became the primary authoritative statement on the application of GAAP to state and local governments.[31] GAAFR primarily addressed internal reporting and dealt with fund accounting and budget conformance rather than effective and efficient use of funds. GAAFR was accepted by the AICPA.

Meanwhile, the accounting profession devoted what seemed to be minimal attention to the problems of nonbusiness entities. Malvern Gross advanced the following reasons for the profession's apathy: (1) nonbusiness concerns still had a relatively low profile; (2) outsiders believed that the organizations were performing fairly well; (3) legal risks of audits were minimal; (4) audit fees were inadequate; and, (5) audits were, in essence, a community service.[32] However, by the late 1960s and early 1970s the apathy disappeared due in large part to the growth of public awareness.

"Public right to know" permeated the new era. A great deal of proposed legislation ranging from disclosure requirements to active government regulation was considered. The new attitude intensified with Watergate and the financial problems of New York City, and remains stoked currently by such events as the mismanagement of the Regional Transit Authority in Chicago, and the financial difficulties of the social security system. This stage of development of nonbusiness accounting has been called a revolution by Gross.[33]

He traced the origin of the revolution to a blue-ribbon commission instituted and supported by private citizens concerned with the capacity of nonbusiness entities to meet public needs and to make these organizations more responsive to their constituencies. These events do indeed mark the beginning of a different attitude toward nonbusiness accounting because changes in basic concepts and ideas relative to financial accounting and reporting began to emerge.

The Commission on Private Philanthropy and Public Needs (Filer Commission) came into being in the fall of 1973.[34] The Commission established a study group which formed an accounting advisory committee consisting of four accountants. The advisory committee concluded, among other things, that: (1) reporting to the public needed improvement; (2) fund accounting techniques produce reports that are difficult to understand; and, (3) if the private sector did not improve on its reporting weaknesses, government intervention would be encouraged with the possibility of government goals being imposed upon contributor goals.[35]

The advisory committee produced recommendations which it addressed to the Filer Commission and to the accounting profession in October, 1974. The objective of the report was to spark discussion and action within the profession. The major recommendation was that a single uniform set of accounting principles be adopted and followed by nonbusiness organizations.[36]

This recommendation was in stark contrast to the then prevailing environment. Along with specific industry-produced guides, the AICPA was busy preparing specific industry audit guides. In 1972, the AICPA released an audit guide for hospitals;[37] in 1973, it released an audit guide for colleges and universities;[38] and, in 1974, it released an audit guide for voluntary health and welfare organizations (a revision of a 1966 version including more forceful views of the profession).[39] These guides were based on industry peculiarities.

Development in the governmental area was not idle. The MFOA, besides creating GAAFR in 1968, devised an industry audit guide for state and local government units which was published by the AICPA in 1974.[40] The American Accounting Association (AAA) was also quite active in urging reform at this time. The AAA prepared several committee reports in the area of accounting, including a 1971 report on practices of not-for-profit organizations,[41] a 1972 report on concepts applicable to the public sector,[42] and a 1974 report on not-for-profit organizations identifying issues and research implications.[43] These reports all seemed to agree with the conclusion that ". . . the greatest challenges for accountants in the public sector lie in finding . . . meaningful relationships . . . for public accountability . . . (for) all public officials."[44] Thus, while a diversity of "acceptable" accounting practices was developing, there was also a call for a single integrated set of accounting principles for nonbusiness.

The Movement Gains Momentum

The activities of the mid 1970s were the birth of the accounting profession's real concern for the nonbusiness sector. Besides the previously mentioned efforts, the Accounting Standards Executive Committee (AcSEC) of the AICPA established in May, 1975 a subcommittee to develop accounting principles and reporting practices for nonbusiness entities not covered by existing audit guides. In 1978, the AICPA issued a Statement of Position (SOP) entitled "Accounting Principles and Reporting Practices for Certain Nonprofit Organizations."[45] According to Steven Woolf of the AICPA Washington office, this statement affects some five hundred thousand organizations.[46]

Five major recommendations were advanced in this SOP.

1. The organizations should prepare a statement of activity to show all expenses and major sources and amounts of revenues and support. Principal sources and amounts of additions to plants, endowments, and other capital funds should also be reported. The SOP stated that the nonbusiness entities, even though not established to earn profits, must generate resources greater than obligations in order to survive. This type of information was deemed important to contributors, trustees, beneficiaries, and creditors.
2. Entities should report separately the expenses related to fund-raising, membership development, other general expenses, and costs for each major program. This would allow interested parties to determine the purposes to which contributions are applied.
3. The nonbusiness unit should prepare a balance sheet.
4. The organizations should prepare a statement of changes in financial position.
5. The entities should use accrual accounting techniques for reporting purposes.

These recommendations, differing materially from traditional fund accounting, were given significance when the FASB expressed that certain SOPs were to be considered preferable accounting principles.[47] The literature of the late 1970s contains arguments for the use of accrual accounting techniques to replace fund accounting.

Even by the end of the 1970s, no single consistent set of reporting principles existed for all nonbusiness enterprises. Since one of the projects of the Financial Accounting Standards Board (FASB) is to develop a conceptual framework, upon which logical, consistent standard-setting for financial accounting and reporting could be based, the opportunity to develop a single set of accounting concepts based on sound theory became available.

Part II: A Conceptual Framework and a Standard-Setting Process for the Nonbusiness Sector

The FASB's first Statement of Financial Accounting Concepts (SFAC) dealing with the conceptual framework of accounting specifically addressed business enterprises.[48] In 1977, the FASB commissioned Robert Anthony to conduct a study exploring the conceptual accounting issues for nonbusiness organizations.

The Anthony Study was based on the premises that financial statements should articulate with each other and that users of financial statements are reasonably well informed. Anthony discussed tpes of entities to be included in the nonbusiness category as well as appropriate considerations of user groups and uses of reported information. As a result of Anthony's research, several issues related to nonbusiness entities were identified. Four points are especially relevant to this discussion.

1. Is the following list of primary users of financial report information adequate for the purpose of identifying needs for such information: governing bodies, investors and creditors, resource providers, oversight bodies, and constituents?
2. Is the following list of the types of financial report information needed by users adequate as a basis for deciding how best to meet these needs: financial viability, fiscal compliance, management performance, and cost of services provided?
3. How, if at all, should business organizations be distinguished from other organizations for the purpose of developing accounting concepts?

4. Should a single set of concepts apply to all types of nonbusiness organizations, or should there be one set for governmental organizations and one or more additional sets for nongovernmental, nonbusiness organizations?[49]

In other words, are separate conceptual frameworks necessary for business and nonbusiness entities and are separate frameworks necessary within the nonbusiness sector for government versus nongovernment organizations? If the profession opts for multiple frameworks, a problem will develop in the nonbusiness sector. Many nonbusiness entities behave like business entities, i.e., they derive financial resources from the sale of goods and services. Other nonbusiness organizations do not behave like business organizations, i.e., they derive financial resources from sources other than the sale of goods and services. Should "businesslike" nonbusiness entities be classified as business or nonbusiness? Also, would the profession need a separate authority and a separate standard-setting process for each entity classification? If so, questions are likely to arise concerning the support, controls, responsibilities, authorities, etc. of the separate standard-setting bodies.

The recent literature contains a cornucopia of ideas, theories, and emotions arguing the pros and cons of the multiple conceptual framework and standard-setting issues. The Anthony Study includes a brief discussion of a good sampling of them. Arguments favoring multiple frameworks include:

1. Earnings, as emphasized in the FASB's objectives of financial reporting for business organizations, may not be an appropriate concept for nonbusiness.
2. Nonbusiness users have information needs not satisfied by earnings information such as financial viability, fiscal compliance, management performance, and cost of services provided.
3. The federal government can be excluded as sovereign since the Comptroller General has statutory authority to set accounting standards for the federal government.
4. Nonbusiness industry peculiarities are too numerous to establish one set of concepts for all types of nonbusiness entities.
5. Financial reports of state and local governmental organizations should be prepared for all citizens, where-

as reports of other nonbusiness organizations are of interest only to specific groups.

6. A large body of generally accepted practices in relation to governmental accounting already exists.
7. Current practices in governmental and nongovernmental entities are so diverse that if a single set of concepts evolved, either group would need to learn a fundamentally different approach to accounting.
8. Government and nongovernment organizations' financial reports are seldom, if ever, compared, therefore, a single set of concepts are not necessary.[50]

Arguments in opposition to multiple frameworks found in the Anthony Study include:

1. Differences that exist between business and nonbusiness entities are really not significant enough to justify separate conceptual frameworks, and nonbusiness peculiarities such as nonrevenue resource inflows and restrictions on spending can be dealt with within a conceptual framework which includes business entities since financial accounting concepts[a] are essentially the same in both types of enterprises.
2. At the standards or principles level, some separate statements may be desirable and feasible for nonbusiness organizations similar to the manner in which certain industries receive "special" treatment.
3. Nonbusiness organizations must survive by generating resource inflows that exceed obligations, and these factors could be illustrated in a statement of activity which is very similar to a statement of earnings.
4. Multiple sets of concepts would require fitting a particular organization into one set or the other resulting in some perplexing classification problems.
5. A simple system of one set of concepts is preferable to a more complex system of multiple sets of concepts.
6. Nongovernmental and governmental organizations both have similar responsibilities of accountability to the public.

[a]Note: Certain economic concepts such as the reporting entity, financial position, cost of services rendered, results of operations or activities, changes in financial position, etc. are common to all economic organizations.

7. The reason for the diversity in current nonbusiness industry practice is purely historical resulting from the absence of an overall conceptual framework rather than from real differences in the organizations.
8. Multiple sets of concepts would increase difficulty in understanding financial statements because of increased implications of separate concepts.[51]

Ultimately, the question becomes whether separate conceptual frameworks and/or standard-setting processes should exist for business, nongovernmental nonbusiness, and governmental nonbusiness entities. Both sets of arguments relative to separate frameworks contain salient points. Nevertheless, a brief expansion of the points concerning whether earnings generation and measurement are equally appropriate for business and nonbusiness entities provides a basis for judging the feasibility of the development of a single conceptual framework for all entities as explained in the next paragraphs.

Although the nonbusiness entities may not be involved in the earnings process as an indication of performance and as a basis for return to owners, the survival of nonbusiness entities requires at least a balance of resource inflows and accomplishments (i.e., some kind of breakeven). In other words, resource inflows necessary for continued operation may be impossible to generate unless the entity achieves accomplishments commensurate with the resources devoted to it. This is similar to the necessity of a business entity to generate adequate returns to investors. Thus, the means of survival for both business and nonbusiness entities are very similar. Also, as John C. Burton pointed out, "cost measurement in economic terms is a legitimate objective of both private and public sectors, and the largest number of 'accounting' problems seem to arise in this process."[52]

Combining the ideas above with an emphasis on an information approach rather than a net income approach to concepts and standard setting implies that one conceptual framework is feasible with an occasional separate standard of financial accounting and reporting being set for specific entities. This is so because in an information approach, standards are based on supplying information relevant to identified user needs. On the other hand, in the net income approach, standards are based on the transactional effort of an event on income measurement. If the main concern is providing information rather than measuring income, the idea of implementing one framework is enhanced. Net income can still be an appropriate concept since it is important to users of business entity information. Nevertheless, net income would not necessarily be the focal point of concept formulation and standard setting, thus allowing nonbusiness entities to operate under the same constitution as business entities. The FASB appears to be leaning toward an information approach as implied by its objectives spelled out in SFAC No. 1,[53] even though the Board does reiterate that the income statement and accrual accounting provide the focal point of the information for users trying to assess future cash flows. Thus, the potential for a single conceptual framework is enhanced.

The above conclusion is intuitively attractive. However, as Engstrom suggested, issues related to determination of a single or multiple conceptual framework structure should be resolved following a logical thought process.[54] He claims that accounting information and accounting principles should facilitate resource allocation; and, more specifically, how resources should be allocated to the nonbusiness as opposed to the business sector. Accepting resource allocation as a basis, user-groups in the nonbusiness sector could be identified, followed by a determination of their informational needs. The next logical step would be to determine how to meet user needs (i.e., appropriate accounting methods, reporting formats, etc.). After deciding how to meet user needs, the uniformity of principles issue could be addressed.

This type of approach is consistent with the FASB's concepts statement concerning the qualitative characteristics of information. According to SFAC No. 2, information should be, among other things, understandable, relevant, comparable, and reliable.[55] Information with these characteristics is necessary for rational resource allocation decisions. Comparability is especially important so that allocation of resources to different sectors can result in the most efficient resource utilization possible. It does seem, however, that one framework would provide better comparability of information than could be achieved through information derived from multiple frameworks. Even though the authors believe that the aforementioned points and arguments indicate that a single conceptual framework for all entities, is preferable, this issue and its implications for standard-setting are obviously debatable. The final section of this article describes the events that have occurred relative to these issues in the five years since the Anthony Study was released.

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Part III: The State of Affairs from 1979 to 1984

Introduction

Weaknesses in the traditional fund accounting model for nonbusiness entities became evident as more resources flowed into the nonbusiness sector as discussed in Part I. The discussion in the previous section highlighted the conceptual issues that have emerged in the recent developments in accounting thought and practice relative to the nonbusiness sector. Serious problems and important questions arose calling for a well-reasoned, professional response to keep the changes from degenerating into chaos. The following paragraphs portray the recent actions of certain authoritative accounting bodies in response to the demands for changes in financial accounting and reporting practices and standards for nonbusiness entities.

Activities, decisions, and developments of the last five years indicate there is still no consensus on the ultimate direction nonbusiness accounting standard setting will take. The federal government has a legal right to adopt standards independently of other interested parties. The FASB is moving in its chosen direction by working on a general framework. Committees representing state and local governmental units are taking more definite stands by working on a specific framework and specific standards. These actions indicate efforts have been made to manage the changes, but presently these efforts are not completely centrally organized.

Financial Accounting Standards Board (FASB) Action

The FASB appears to favor development of a single conceptual framework for all accounting entities. In December, 1980, the FASB issued SFAC No. 4, "Objectives of Financial Reporting by Nonbusiness Organizations."[56] The Board concluded that it may not be absolutely necessary to develop an independent conceptual framework for any particular category of entities. The objectives developed in the SFAC No. 4 reveal that financial reporting by nonbusiness organizations should provide information that is useful to present and potential resource providers and other users in: (1) making rational decisions about resource allocation, (2) assessing the quality of services provided and the ability to continue to provide services, and (3) assessing how managers have performed their stewardship function.[57]

The objectives further stated that financial reporting should provide the following information about reporting entities: (1) economic resources, obligations, and net resources, as well as events that change resources and resource interests; (2) performance during a period including periodic changes in the amount and nature of net resources and service efforts and accomplishments; (3) how cash and liquid resources are obtained and spent and other factors that affect liquidity; and, (4) any explanatory material needed to help users understand the financial information provided.[58]

The statement suggested three major distinguishing characteristics of nonbusiness organizations. Significant resources are received from resource providers who do not expect repayment or proportional return of services. The purpose of operations is primarily other than profit generation. Finally, there is an absence of defined ownership interests. These characteristics may result in transactions that are not common to business organizations (contributions, grants, taxes, etc.). The Board was also careful to state that the distinction between business and nonbusiness organizations will not always be perfectly clear.[59]

The FASB decided that the aforementioned objectives along with those developed for business organizations in its first SFAC would serve as the foundation for a single integrated conceptual framework for financial accounting and reporting. However, the FASB also deferred its decision on whether these new objectives should apply to state and local government units.[60] One reason behind this action was that a new structure outside the FASB was being proposed for setting financial accounting and reporting standards for state and local unity. Nevertheless, the Board claimed that it had no persuasive evidence that its objectives for nonbusiness organizations are inappropriate for governmental units.[61]

National Council on Governmental Accounting (NCGA) Action

Many of the latest developments in nonbusiness accounting relate to the problem of how state and local governmental units will fit into whatever framework is established. In June, 1979, the U.S. Department of Housing and Urban Development (HUD) awarded a grant to the NCGA to develop a conceptual framework for state and local government accounting and financial reporting.[62] The impetus for this project came from a 1979 restatement of GAAFR, referred to as *Statement 1,* to update, clarify, amplify, and reorder the 1968 GAAFR.[63] The restatement was triggered because its sponsors believed that fund accounting provisions had become too complex, fund reporting did not provide an overview of a governmental unit as a whole, and that budgetary reporting provisions were inconsistently applied.[64] Thus, the NCGA decided that a framework was necessary for setting standards of financial accounting and reporting that would be logical, consistent, and responsive to the needs of users.

In early 1982, the NCGA issued its first statement of concepts relative to its conceptual framework project.[65] The statement provided objectives to guide the future development of accounting and reporting standards for state and local governments. According to the NCGA's *Concepts Statement 1,* the overall goal of accounting and financial reporting for state and local governmental units is to provide: (1) financial information useful for making economic, political, and social decisions; (2) a report on accountability and stewardship; and, (3) information useful for evaluating managerial and organizational performance.[66]

Under the umbrella of this overall goal, the statement lists and discusses a set of basic objectives and their component parts. These objectives include providing information useful for:

1. determining and forecasting the flows, balances, and requirements of short-term financial resources of the governmental unit;
2. determining and forecasting the financial condition of the governmental unit and changes therein;
3. monitoring performance under terms of legal, contractual, and fiduciary requirements;
4. planning and budgeting, and for forecasting the impact of the acquisition and allocation of resources on the achievement of operational objectives;
5. evaluating managerial and organizational performance; and,
6. communicating the relevant information in a manner which best facilitates its use.[67]

These objectives are similar to the FASB's objectives for nonbusiness entities but they are a bit more specific.

Federal Government Action

During this same period, the federal government also began working on a conceptual framework of its own with the primary objective of providing information useful in assessing management's performance and stewardship.[68] Since the GAO is charged with the development of accountancy for the federal government, it is not bound by conclusions of the FASB or NCGA.

By 1981 the GAO issued three exposure drafts on its conceptual framework for federal accountancy which included discussions on objectives of financial reporting, definitions of reporting elements, and measurement concepts. It also saw passage of the Federal Integrity Act of 1980. Under the requirements of this act, the head of each executive agency must annually submit a report on the adequacy of his agency's system of internal accounting and administrative controls. The purpose of the act is to gain reasonable assurance: (1) of compliance with cost limits and obligations; (2) that funds, property, and assets are safeguarded from waste, loss, unauthorized use, or misappropriation; and, (3) that revenues and expenditures are properly reported for reliable statements and reports.[69]

An Attempt at Compromise

In April, 1980, the Governmental Accounting Standards Board Organization Committee (GASBOC) was created. This committee resulted from informal discussions among various professional groups including the AICPA, Financial Accounting Foundation (FAF), NCGA, GAO, and others. The committee's purpose was to consider whether a need existed for a new structure to establish financial accounting and reporting requirements for state and local government. If so, GASBOC was to develop detailed recommendations regarding the new structure.[70]

In February, 1981, GASBOC released an exposure draft recommending a new structure similar to the FAF structure with an oversight foundation, a full-time standard-setting board, and an advisory council. A separate Governmental Accounting Foundation (GAF), Governmental Accounting Standards Board (GASB), and a Governmental Accounting Standards Advisory Council (GASAC) separate from FAF/FASB structure were proposed.[71]

The FAF opposed a completely separate structure since a one-board approach seemed to be more appropriate; however, the FAF indicated in July, 1981, that it was willing to support a GASB if it were to operate under the auspices of the FAF, whose board of trustees would be expanded to include three governmental representatives. Nevertheless, the FAF cautioned that the proposal depended on its ability to raise funds for the new structure from the government and elsewhere. In 1984, the GASB became a reality. The first five board members were named as of July, 1984,[72] and in the same month the GASB took its first action. This first statement, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide,* in essence accepted all the currently effective pronouncements of the NCGA as well as the AICPA's audit guide entitled *Audits of State and Local Governmental Units*.[73] With this as its starting point, the GASB will proceed with its charge to develop financial accounting standards for the governmental/nonbusiness sector.

A Perspective on the Direction of the Revolution

Only as the entire conceptual framework issue is further developed will the question as to whether only the FASB framework will exist for all nonbusiness entities or if the NCGA framework as accepted by the GASB will provide a completely separate constitution of accounting for state and local governmental units. Overall, however, it is apparent that a revolution in the nonbusiness arena has occurred and is now settling into a more organized form of evolution. The revolution has occurred concurrently with another revolution where an accounting emphasis has taken an informational approach and where an overall constitution for accounting has begun to take shape. No matter what the future holds, the accounting profession should continue to use the best of accounting thought in the business, nonbusiness, and governmental sectors of our economy so that rational choices will be made.

Summary

Financial accounting and reporting in the sphere of nonbusiness entities developed under the umbrella of fund accounting techniques emphasizing the stewardship of funds. As interest in nonbusiness entities expanded, dissatisfaction with information provided by fund accounting emerged. When attempts to remedy this problem developed, questions emerged as to whether separate conceptual frameworks of accounting for business and nonbusiness organizations should be developed. The FASB's current position is that separate conceptual frameworks for business and nonbusiness entities are neither necessary nor desirable. However, the FASB does support a separate Governmental Accounting Standards Board, which is now in operation, responsible for standard-setting in the government sector. Nevertheless, the FASB seems to believe that several sets of objectives for business, nonbusiness, and governmental organizations can exist and be served by a single integrated conceptual framework. This appears to remain true even though the GASB has accepted the initial conceptual framework standards of the NCGA.

This article has presented the major facets of the evolution of and revolution in nonbusiness accounting that have resulted in the present state. Many specific events in the evolution and revolution were not reported for the sake of brevity. Also, many of the efforts and achievements described herein are debatable as to their utility, potential, and practicality. Nevertheless, the article has attempted to portray that fund accounting techniques for nonbusiness entities developed slowly and became relatively formalized by the 1950s. However, the 1960s and 1970s revealed that a diversity in applications of these techniques existed and the output of fund accounting was inadequate as the resources invested in the nonbusiness sector and interest in it swelled.

FOOTNOTES

[1]Financial Accounting Standards Board (1980b).
[2]Potts (1978), p. 518.
[3]Morey (1948), p. 227.
[4]Morey (1948), p. 227.
[5]Dahlberg as in Potts (1978), pp. 527-528.
[6]Morey (1948), p. 227.
[7]Potts (1978), pp. 520-527.
[8]Morey (1948), p. 227.
[9]Morey (1948), p. 228.
[10]Hackett, p. 123.
[11]Potts (1978), p. 535.
[12]Morey as in Potts (1978), p. 532.
[13]Flanagan, p. 4.
[14]Chatters, p. 101.
[15]Greathouse (1981), p. 59.
[16]National Committee on Municipal Accounting (1941).
[17]National Committee on Municipal Accounting (1939).
[18]Points and Michelson (1980-1981), p. 7.
[19]Morey (1948), p. 228.
[20]Ginzberg, Hiestand, and Reubens, p. 87. United States Department of Commerce, p. 418.
[21]Morey (1948), pp. 228-231.
[22]Points and Michelson (1980-1981), p. 7.
[23]Points and Michelson (1980-1981), p. 7.
[24]Morey (1948), pp. 230-231.
[25]Morey (1948), p. 231.
[26]Weinstein, pp. 1005-1006.
[27]United States Department of the Treasury, Volume II, p. 832.
[28]Weinstein.
[29]Points and Michelson (1980-1981), p. 8.
[30]Points and Michelson (1980-1981), pp. 8-9.
[31]Municipal Finance Officers Association (1968).
[32]Gross (1977a), p. 67.
[33]Gross (1977a), p. 66.

[34]Gross (1975), p. 55.
[35]Gross (1977a), pp. 69-70.
[36]Gross (1975), p. 59.
[37]American Institute of Certified Public Accountants (1972).
[38]American Institute of Certified Public Accountants (1973).
[39]American Institute of Certified Public Accountants (1974a).
[40]American Institute of Certified Public Accountants (1974b).
[41]American Accounting Association (1971).
[42]American Accounting Association (1972).
[43]American Accounting Association (1974).
[44]American Accounting Association (1972), p. 106.
[45]American Institute of Certified Public Accountants (1978).
[46]Woolf, p. 10.
[47]Financial Accounting Standards Board (1979), p. 1.
[48]Financial Accounting Standards Board (1978).
[49]Anthony (1978a), pp. 47, 52, 165, 185.
[50]Anthony (1978a), pp. 185-187.
[51]Anthony (1978a), pp. 187-191.
[52]Burton, p. 66.
[53]Engstrom (1979a), pp. 84-87.
[54]Financial Accounting Standards Board (1980a), p. 15.
[55]Financial Accounting Standards Board (1980b), p. 2.
[56]Financial Accounting Standards Board (1980b), pp. 19-22.
[57]Financial Accounting Standards Board (1980b), pp. 22-26.
[58]Financial Accounting Standards Board (1980b), p. 4.
[59]Financial Accounting Standards Board (1980b), p. 2.
[60]Financial Accounting Standards Board (1980b), p. 2.
[61]Greathouse (1981), p. 60.
[62]Municipal Finance Officers Association (1980a).
[63]Municipal Finance Officers Association (1980b).
[64]Municipal Finance Officers Association (1982).
[65]Municipal Finance Officers Association (1982), p. 2.
[66]Municipal Finance Officers Association (1982), pp. 2-3.
[67]Points and Michelson (1979-1980), p. 40.
[68]The Financial Integrity Act of 1980, pp. 28-29.
[69]Governmental Accounting Standards Board Organization Committee.
[70]Governmental Accounting Standards Board Organization Committee, pp. 8-11.
[71]Deloitte Haskins & Sells, p. 1.
[72]Late Developments (1984), p. 3.
[73]News Report (1984), p. 18.

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HISTORICAL NUGGETS

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THE 1904 CONGRESS OF ACCOUNTANTS: NATIONAL OR INTERNATIONAL?

Abstract: The international accounting congresses, which are held every five years, are numbered under the assumption that the first such international gathering was the one held in St. Louis in 1904. In this paper, the question is raised whether this 1904 Congress should be called "international". There are reasons to believe that the main objective of the congress was to raise the status of the profession in the United States, and that the slight international involvement was little more than window dressing.

Introduction

The 1904 Congress of Accountants, held in the United States at St. Louis, Missouri, is usually credited with being the first international accounting congress. It is certainly treated as the first, from the point of view of numbering subsequent congresses. It is viewed as an important stage in the recognition of the international aspects of accounting.[1] There is, however, doubt whether its organizers ever saw it as an important international event, and whether the international aspects of the Congress were more than window dressing for domestic consumption.

The public accounting profession in the United States only began to develop at the end of the nineteenth century. The 1904 Congress was organized under the auspices of the Federation of Societies of Public Accountants. This body was founded in 1902 and was far from being the only professional accounting body in the United States at that time. There was considerable competition among the different bodies, and the 1904 Congress was designed to raise the status of the Federation in the United States. An invitation to send representatives, addressed to a few professional bodies in foreign countries, can be seen as an attempt to give the Congress and the Federation added prestige.

History of the Congress

That it is now referred to as an international congress is in a way accidental. The Congress was not called an international congress at the time it was being planned. The Federation had held its first convention, in 1903, in Washington, D.C. There the proposal was made, to hold the next annual convention in St. Louis, where the World's Fair would be taking place. This decision, to hold it at the World's Fair and to invite a small number of representatives from other countries, clearly began to give it an international flavour.

During 1904, a number of references were made in *The Accountant* (London) to the St. Louis Congress. On February 6th, that journal contained an announcement of the forthcoming Congress. The Federation announced that the Congress was to be held and hoped not only that it would attract a large number of Americans, but also a large number of professional accountants from foreign countries. *The Accountant* made the point that "The plan is a very ambitious one, and if carried out successfully will help to obtain for the profession of the Public Accountant in America, a larger and more general recognition by the public and business community generally."[2]

The preliminary notice issued by the Federation about the forthcoming Congress stated that it was proposed to invite several societies of professional accountants in other countries to send at least one of their number to represent them. The preliminary notice made clear that the Congress should be of considerable interest to all members of the profession and, further, "will also assist in making the profession, and its value, more widely known throughout the country, and to help establish it more firmly as one of the recognised learned professions."[3]

How International Was The Congress Meant To Be?

The Accountant (February 20th, 1904) was interested in the opportunity for an international exchange of views, "There seems no reason why the Congress should not be a notable event."[4] In an earlier editorial, the suggestion had been made that American accountants should invite United Kingdom practitioners to go over and see what they were doing, but it was admittedly made in only half-seriousness, and the journal was surprised that the Americans had acted upon it with such promptitude. In an editorial of April 9th, the possible dual aspects of the conference were referred to. "In particular, it would be interesting to know whether all the demonstration is to be confined to American practitioners, or whether it is proposed to make the Congress international in the true sense of the term."[5] The Editors were worried that the full particulars of the conference had not yet been announced. The organisers had indicated in the original announcement that they would invite many businessmen and financiers to the conference. *The Accountant* was very critical of this approach: ". . . if the whole object, or even one of the chief objects, of the Conference, is to advertise professional accountancy for the benefit of American practitioners, the whole matter assumes a very different complexion and it will remain to be seen whether any practitioners outside America will think it worthwhile to assist in such an endeavour."[6] The editorial made the point that there was doubt as to whether the gathering was to be that of a learned society trying to advance knowledge, or was to be "for the advancement of business."[7] "We quite appreciate that from the point of view of business pure and simple there is something in our contemporary's suggestion as to the advantage of inviting outsiders."[8]

Clearly there was concern, therefore, as to the true nature of the Congress. In the edition of May 28th, *The Accountant* reproduced the preliminary announcement and program of the Congress. The program was still little more than a skeleton, but the journal admitted that, even as it stood, it presented several points of concern.[9] Seven papers were to be read, but the authors of six of these papers were still unknown at this point. It was proposed that one of the papers would be prepared and approved by a Committee, and the journal remarked that papers written by committees can be somewhat colorless. The editors were still worried that the announcement stated that various papers would be read by accountants of world-wide reputation, but at that moment no announcement had been made as to who they were. Provision was made for one paper to be given by a European accountant. This preliminary announcement also mentioned that the English, Scottish, and Canadian societies of accountants would be invited to send representatives to the Congress and that men prominent in government and financial circles would be invited to attend the sessions and entertainment. So, rather than inviting people from many foreign countries, the federation now limited this to three. The organizers were also persisting with the idea of inviting prominent non-accountants.

In the July 23rd edition of *The Accountant,* it was reported that the Council Meeting of the English Institute of Chartered Accountants had announced that it had been invited to nominate a representative to read a paper at the Congress. *The Accountant* felt that the Americans had left it rather late to ask a busy practitioner to prepare an important paper to be delivered in a little over two months' time, one month of which would ordinarily have been devoted to a vacation. This editorial went on to say, however, "it is satisfactory to note that the profession in this country will be represented at what may fairly be described as the first International Congress of Professional Accountants."[10]

International Participation

The opening address at the Congress, which commenced on September 26th, was given by the president of the exposition company, The Hon. D. R. Francis. He emphasized the international aspect of the World's Fair, but the words he used to do so were not particularly well chosen. "We have participating . . . [in the exposition] . . . practically every State and Territory of the United States, as well as every civilized country on the globe, and we have in addition to that many primitive races represented here."[11] He made clear that the object of the exposition was the celebration of a great event in the history of the United States, namely "the rounding out of the first century of the domination of the United States Government over this vast territory lying west of the Mississippi River."[12]

The Chairman of the Congress, J. E. Sterrett, mentioned in his address that when the idea of the Congress was discussed in 1903, the organizers decided that every public accountant in the United States should be invited to attend, and in addition, the Canadian and British Societies should be invited to send delegates.[13] In his address, Sterrett indicated that it was an international congress, but the word was used descriptively rather than as a title. Papers were given to the Congress by representatives of the English and Canadian accounting professions. The representative from Scotland unfortunately did not arrive, as he was taken ill on his way to the Congress. Most of the papers given at the Congress were relevant only to the U.S., with great emphasis being placed on municipal accounting.

The representative of the English Institute, F. W. Pixley, introduced his paper with the words "As the representative of the leading Institute of Professional Accounting in the Old World."[14] It was just as well that it was not really an international conference, as his concluding remarks emphasized how the Saxon race had always been characterised by being honest and straightforward in its dealings. He hoped that one of the results of the Congress would be "the elevation of the profession in the eyes of the world, and that the professional accountants of the UK and US will work together, not only for mutual advantage but for the benefit of those who on both sides of the Atlantic may rely on their professional assistance."[15]

There was, in fact, at least one surprise. On the last day of the Congress, it was announced that E. Van Dien from Amsterdam was present; he had not been sent by his professional society, but had decided that the event was of importance and so wished to attend. He was introduced to the audience and said a few words about the status of accounting in The Netherlands. His presence turned out to be important, as it was this E. Van Dien who was the driving force leading to what has become known as the Second International Congress. This 1926 Congress had clear international objectives.

J. Martin, a representative from the United Kingdom of the Society of Accountants and Auditors, when addressing the Congress, wished the Federation every success in their endeavors to obtain State recognition. Such recognition had already been given by a number of States. "I hope this is only a prelude to what I shall term national recognition."[16] The Congress had 91 registered participants of whom seven were Canadian, two were from the United Kingdom and one from The Netherlands. The remaining 81 were from the United States, two of whom had strong U.K. connections.

International Recognition

A report on the Congress appeared in the December 10th issue of *The Accountant*. It was introduced by the words "The demands upon our space caused by the recent Autumnal Meeting at Liverpool have made it impossible for us to consider earlier the Congress of Accountants of St. Louis, USA which was held on the 26th/27th and 28th last."[17] There had been reports of the Congress in the 15th and 22nd October editions.[18] "As had already been stated, this Congress was noteworthy as being the first international assemblage of professional accountants, and although in the numbers of those attending it fell far short of our expectations, yet the papers delivered remain as evidence of an event which will always be regarded as noteworthy by those who have taken any part in it."[19]

In the December 24th edition of *The Accountant,* the leading article made the point that "perhaps the most remarkable feature of the St. Louis Congress was the large proportion of papers devoted to the Accounts of Local Authorities."[20] *The Accountant* appreciated that these papers had only limited concern to its readers, who were concerned only indirectly with the movement towards uniformity in the States "but in as much as the problem which faced accountants in the States is in all essentials the same problem that presents itself here, the experience of our American friends is by no means without interest."[21]

A significant "international" paper was given by A. L. Dickinson, who was at the time a partner in both U.S. and U.K. firms of accountants. His topic was the profits of a corporation and it was a comparative paper, contrasting the position of the U.K. with that of the United States.[22] In this paper he dealt with the problems of fluctuations in exchange rates and consolidating earnings statements, both topics which were to be discussed at many future congresses. Only this one paper, therefore, can be said to fall within the field of what we would now regard as international accounting. The Congress did, however, provide the opportunity for a limited international exchange of views.

The Second International Congress was held in Amsterdam in 1926. The desirability of holding such a Congress had been discussed at Council Meetings of the Netherlands Institute of Accountants in 1923 and 1924, and that Institute had held discussions with accounting bodies in the U.K. and France, who were sympathetic to the idea, and who were willing to cooperate in the venture. The second Congress was clearly an international accounting meeting. Accountants were there from seventeen countries, including Russia. One of the objects of the Congress was "to offer the opportunity for an International exchange of views regarding subjects which concern Accountancy and Efficiency and thereby hopes to work towards International rapproachment in order."[23] This "international rapproachment" is now known as harmonization. Another of the objectives was "to further the mutual acquaintance with, and the uniformity of the method of working of, Accountants in the various countries."[24] A third objective was "to propagate views that can be adopted internationally regarding problems concerning the science of costs calculation and principles of efficiency."[25] Clearly the Amsterdam event was planned as an international Congress. The St. Louis Congress, on the other hand, seems to have been motivated primarily by national considerations.

FOOTNOTES

[1]For discussion on this point, see Previts and Merino (1979) p. 143 and Mueller (1979) pp. 2-3.

[2]*The Accountant,* vol. xxx, p. 195 (until 1924 the subtitle of the journal was "The recognised weekly organ of Chartered Accountants and Accounting throughout the world").

[3]*The Accountant,* vol. xxx, p. 195.
[4]*The Accountant,* vol. xxx, p. 241.
[5]*The Accountant,* vol. xxx, p. 460.
[6]*The Accountant,* vol. xxx, pp. 460-461.
[7]*The Accountant,* vol. xxx, p. 461.
[8]*The Accountant,* vol. xxx, p. 460.
[9]*The Accountant,* vol. xxx, pp. 730-732.
[10]*The Accountant,* vol. xxxl, p. 96.
[11]Proceedings of the Congress (1904), p. 15.
[12]Proceedings of the Congress (1904), p. 19.
[13]Proceedings of the Congress (1904), pp. 23-33.
[14]Proceedings of the Congress (1904), p. 122.
[15]Proceedings of the Congress (1904), p. 141.
[16]Proceedings of the Congress (1904), p. 35.
[17]*The Accountant,* vol. xxxl, p. 704.
[18]*The Accountant,* vol. xxxl, pp. 388-426 and 443-471.
[19]*The Accountant,* vol. xxxl, p. 704.
[20]*The Accountant,* vol. xxxl, p. 761.
[21]*The Accountant,* vol. xxxl, p. 762.
[22]The Proceedings of the Congress (1904), pp. 171-191.
[23]Proceedings of the Congress (1926), Forward, p. xiii.
[24]Proceedings of the Congress (1926), Forward, p. xiii.
[25]Proceedings of the Congress (1926); Forward, p. xiii.

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THE STORY OF THE SIXTH RULE

Abstract: This paper traces the development of the "sixth rule," the last of the six rules which the membership of the American Institute of Accountants approved at the 1934 annual meeting. The sixth rule appeared suddenly in the Report of the Special Committee on Development of Accounting Principles. It was added, almost at the last moment, in response to the issuing of a "Stop Order" by the Federal Trade Commission (FTC) against the registration statement of Unity Gold Corporation. The profession joined the FTC in criticizing the method of accounting employed by Unity. And, as a result, the sixth rule was added.

At the 1934 annual meeting of the American Institute of Accountants (predecessor organization of the American Institute of Certified Public Accountants), held October 15-18 in the Stevens Hotel in Chicago,[1] the membership formally adopted six "Rules" of accounting:

> 1. Unrealized profit should not be credited to income account of the corporation either directly or indirectly, through the medium of charging against such unrealized profits amounts which would ordinarily fall to be charged against income account. Profit is deemed to be realized when a sale in the ordinary course of business is effected, unless the circumstances are such that the collection of the sale price is not reasonably assured. An exception to the general rule may be made in respect of inventories in which owing to the impossibility of determining costs it is

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a trade custom to take inventories at net selling prices, which may exceed cost.

2. Capital surplus, however created, should not be used to relieve the income account of the current or future years of charges which would otherwise fall to be made thereagainst. This rule might be subject to the exception that where, upon reorganization, a reorganized company would be relieved of charges which would require to be made against income if the existing corporation were continued, it might be regarded as permissible to accomplish the same result without reorganization provided the facts were as fully revealed to and the action as formally approved by the shareholders as in reorganization.

3. Earned surplus of a subsidiary company created prior to acquisition does not form a part of the consolidated earned surplus of the parent company and subsidiaries; nor can any dividend declared out of such surplus properly be credited to the income account of the parent company.

4. While it is perhaps in some circumstances permissible to show stock of a corporation held in its own treasury as an asset, if adequately disclosed, the dividends on stock so held should not be treated as a credit to the income account of the company.

5. Notes or accounts receivable due from officers, employees, or affiliated companies must be shown separately and not included under a general heading such as Notes Receivable or Accounts Receivable.

6. If capital stock is issued nominally for the acquisition of property and it appears that at about the same time, and pursuant to a previous agreement or understanding, some portion of the stock so issued is donated to the corporation, it is not permissible to treat the par value of the stock nominally issued for the property as the cost of that property. If stock so donated is subsequently sold, it is not permissible to treat the proceeds as a credit to surplus of the corporation.[2]

These are the first accounting principles promulgated by the profession, and the only accounting principles ever promulgated upon the basis of a vote by the Institute membership.[3]

The first five of these rules had an extensive history and were well known to the membership. The rules had been developed over a period of several years as a result of correspondence between the New York Stock Exchange's Committee on Stock List and the Institute's Committee on Cooperation with Stock Exchanges. They first appeared in a letter dated September 22, 1932, from the Institute committee to the Exchange committee. Subsequently, this letter was included in a pamphlet published by the Institute entitled *Audits of Corporate Accounts*.[4] This pamphlet was published January 21, 1934.[5]

Although the promulgation of six rules is well documented in the professional standards, no mention of the sixth rule was found in the basic historical literature. Only references to the first five rules were found.

For example, Carey refers to the "five basic principles" of accounting which were approved by the membership at the annual meeting of 1934:

> All the material described above was included in the pamphlet, "Audits of Corporate Accounts," sent to all members. The "five basic principles" of accounting were approved by the Council of the Institute on October 15, 1934—more than a year after passage of the Securities Act of 1933.[6]

Reference to the material cited by Carey, *Audits of Corporate Accounts,* also revealed no mention of the sixth rule. Between January, 1934, when the pamphlet was published, and October, 1934, when the rules were submitted to the membership for approval, the sixth rule had been formulated. Why was this rule added? What event gave rise to its creation?

Further investigation into the matter revealed a most interesting story behind this "sixth rule." Because this "rule" stands today as a GAAP, unchanged after fifty years, it is a story which deserves to be told.

This paper will trace the story of the sixth rule, from the passage of the Securities Act of 1933 to the 1934 annual meeting of the Institute.

An examination of the story behind the Sixth Rule will first describe the environmental conditions which existed during the years prior to 1934 when the rule was promulgated. Next, the accounting regulations of the Securities Act of 1933 will be reviewed, as it was an enforcement action under this act which instigated action by the profession for promulgation of the rule. And finally, the specific accounting practices of the Unity Gold Corporation will be described. The cumulative effect of these three elements will then be examined as a whole, to show the historical significance of the interrelated elements.

Accounting Environment

Accounting practices prior to the Great Depression and subsequent securities legislation were far more unfettered than they are today. This fact may be illustrated by reference to the "Treasury Stock Ploy" referred to by Arthur Lowes Dickinson in 1913. By 1913, many states had enacted laws prohibiting the sale of common stock at a discount. However, the practice of issuing no-par stock was not yet widespread, permitting the use of the "Treasury Stock Ploy" to issue stock below par:

> As an instance of such a device, it is found that on the purchase of an undertaking by a corporation a large block of stock is issued to the vendor, of which a proportion is returned to the corporation as a gift . . . the ultimate effect is that, in spite of the law to the contrary, the stock is sold by the corporation at a discount and the discount charged to cost of property, which is thus considerably inflated.[7]

Such actions did not go unnoticed by accounting critics of the times. Perhaps the most eloquent of the critics was Professor William Z. Ripley. His article entitled, "Stop, Look, Listen!: the Shareholders Right To Adequate Information," which appeared in the September, 1926, issue of the *Atlantic Monthly,* denounced the poor reporting practices of the times, and called for government action under the Federal Trade Commission Law of 1914.[8] This law, in Section 6, provided authority for the FTC to force large corporations to file annual reports with the Commission. Had the FTC accepted this suggestion, the speculative madness of the 1920s might have been somewhat reduced, with perhaps an attendant reduction in the subsequent correction known as the Great Depression.

The accounting profession responded defensively to the Ripley article. George O. May, a leader in the profession and in the Institute at the time, took the lead. May criticized the article in a letter to the New York Times dated August 27, 1926, and in an address at the 1926 annual meeting of the Institute, held in Atlantic City, New Jersey, on September 22.[9] Some weeks later, May again rose to the defense of the profession in an address delivered to the Society of Public Accountants of the State of New Jersey.[10]

While May objected to having the FTC play a more active role in setting accounting principles, he was also concerned about the profession's inability to assume a leadership role. Speaking at the annual meeting of the Institute in Kansas City, Missouri, October 18, 1932, he lamented:

> It is quite true that the public accountant has no power to initiate improvements in corporate methods of accounting or reporting, nor to exercise pressure to bring them about.[11]

The profession at this time apparently did not see any possibility of establishing "Generally Accepted Accounting Principles" without some "legalistic" basis of authority. It was not until the government enacted the Securities Acts of 1933 and 1934 that the profession was willing to allow the Institute to promulgate accounting principles as a preferable alternative to having them set by the Securities and Exchange Commission.

Securities Act of 1933

The events which culminated in the Great Depression led to passage of the Securities Act of 1933. This legislation, which became law on May 27, 1933, required the registration of securities sold in interstate commerce and through the mail and specified requirements for the registration statement and prospectus which were to be filed with the "Commission." This reference was not, however, to the Securities and Exchange Commission (SEC). The SEC was not created until some 12 months later, by the Securities Exchange Act of 1934. When the accountants of 1933 spoke of the "Commission" they were referring to the Federal Trade Commission (FTC). For a period of approximately one year it was this body which had the responsibility for administering the Securities Act of 1933. And it was this commission which was responsible for adding the "sixth rule" to the body of generally accepted accounting principles.

Unity Gold Corporation

Pursuant to the 1933 Act, the FTC filed a "Stop Order" on the registration statement of Unity Gold Corporation as of June 27, 1934. According to the registration statement filed December 28, 1933, Unity acquired all of the assets of the Industrial Gold Mining Company for $5,000 cash and 599,995 shares of capital stock, valued at the par value of $1 per share. However, in accordance with the purchase contract, Industrial immediately donated 475,000 of the shares back to Unity.[12] The FTC raised several questions about the registration statement. However, the only pertinent question of the moment concerns the accounting treatment to be applied to the donated shares. The FTC investigation revealed that Industrial at no time had *jus disponendi* over the shares. Indeed, evidence indicated that there was not even a transfer and retransfer in form only. Unity Gold Corporation had only made a book entry for the additional 475,000 shares of stock. Minutes of the Industrial Company dated August 18, 1932, as cited in the FTC Opinion, reported that:

> the deal as closed, consummated the sale of all assets of the Industrial Gold Mining Company to the Unity Gold Company [sic] for the sum of $5,000 in cash and 15,560 shares of capital stock of the Unity Gold Company, par value $1 per share.[13]

The "Treasury Stock Ploy" attempted to accomplish two things. First, the assets acquired by Unity would be increased by the par value of the additional 475,000 shares. And second, treasury shares would be "fully paid," thereby exempting subsequent purchasers of the stock from assessment if the shares were later sold at a price below par value.

According to Richardson,[14] then editor of *The Journal of Accountancy,* the FTC's Opinion on the Unity case was written by James M. Landis, Chairman of the FTC:

> That these 475,000 shares could not be regarded as being part of the cost of the lease and option on the ground that the registrant parted with these shares in order to obtain the property, seems hardly open to question. The "donation" back to the registrant of these shares was concurrent with the purchase of the property itself.[15]

Thus, the stop order was issued and the registration statement was suspended until the financial statements could be amended.[16]

Response by the Profession

Richardson, as editor of the *Journal,* the "Official Organ of the American Institute of Accountants," spoke for the Institute concerning the matter:

> We feel that Commissioner Landis deserves high commendation for the soundness of the decision and for his ability to sweep aside any dependence upon precedent and to

> go to the very heart of the matter. . . . It is the accountant's duty to state the facts, and if the facts presented for his investigation and approval do not fairly represent the facts we can not believe that there is any excuse for accepting a method of computation of which he disapproves.[17]

It is doubtful that Richardson would have taken such a forceful position without strong support from Institute officers and leaders of the profession such as George O. May. May, who had chaired the Institute's Committee on Cooperation with Stock Exchanges which developed the first five rules, was also chairman of the Institute's Special Committee on Development of Accounting Principles. This committee had been created in response to a presentation given by J. M. B. Hoxsey of the New York Stock Exchange at the 1930 annual meeting of the Institute.[18]

In its report to the Institute Council dated October 4, 1934, the Special Committee responded to the Unity situation with a recommendation as to the appropriate accounting treatment of the sale and simultaneous donation back of capital stock:

> In the past it has not been uncommon, especially in the case of corporations formed to develop a new mine, to charge the par value of the stock issued to property account and to credit to surplus the cash received from the sale by the corporation of the stock donated to it. It is clear, however, that such a procedure results in an overstatement of the property account and of the surplus account.
>
> During the year, a registration statement in which this procedure had been followed was disapproved by the federal trade commission, and the committee believes that the Institute should also indicate its disapproval. Your committee therefore recommends that the following rulings on this point should receive the formal approval of the Institute.
>
> > If capital stock is issued nominally for the acquisition of property and it appears that at about the same time, and pursuant to a previous agreement or understanding, some portion of the stock so issued is donated to the corporation, it is not permissible to treat the par value of the stock nominally issued for the property as the cost of that property. If stock so donated is subsequently

> sold, it is not permissible to treat the proceeds as a credit to surplus of the corporation.
>
> Your committee believes that members of the Institute should recognize an obligation in any case in which they are called upon to prescribe or pass upon the treatment of capital stock donated to a corporation to satisfy themselves that the transaction is a gift in good faith and is not an artificial or unsubstantial transaction designed to create an improper credit to surplus.[19]

The Council unanimously[20] approved the recommendations of the Special Committee on October 15,[21] and submitted the report to the full membership of the Institute for approval at the 1934 annual meeting. The membership did approve all six rules, probably on October 16. Although no firm evidence has been found to set this date, it is logical to assume that the business meeting would be set for one day following the meeting of the Council. And as the following discussion will show, members meeting at a round table discussion on October 17 referred to passage of a new rule regarding proper accounting for donated treasury stock.

Interestingly, at the "Round Table on Reacquired Stock" held on October 17 as part of the annual meeting, Maurice E. Peloubet, for one, seemed much perplexed by the new rule on donated stock:

> It seems to me, unless we consider that donated stock is actual surplus when it is donated, we are putting ourselves in a very difficult position in the valuation of that property. The Institute made some ruling on that, but I am still not at all clear as to how the thing is ever going to be applied, because they seem to imply you should deduct your donated stock from the value of the property; or, in other words, you should deduct from your stated capital, which involves deduction from your property. It is a very confusing thing as to how that would work, and I would like to know whether your committee has given any thought to that point of view.[22]

The Round Table participants discussed the Unity matter until well beyond the planned adjournment time, noting: "The Commission may be consistent with this Unity case from now on, but it certainly is contradictory to their previous practice."[23]

Summary and Conclusions

On October 16, 1934, the Institute adopted the first promulgated

GAAP; six rules of accounting which were formally approved by the members of the Institute at the 1934 annual meeting. In the years since, the list has grown long and the issues complex. Frequently, the principles have been born amid controversy, but none has been proposed with less certain chance of acceptance or of permanence than the first promulgated standards. However, almost fifty years later, those standards remain in effect—and remain essentially unmodified, except for rule 3, which concerns the retained earnings of a subsidiary in a pooling.

Of even greater importance than the particular rules which were approved in 1934 is the concept of promulgated accounting principles, initiated with the approval of these six rules. Before then, the profession did not assume responsibility for participating in the development of generally accepted accounting principles. Thus, the FTC, by its action, perhaps encouraged a direction that has profoundly affected the course of the accounting profession, the adoption of "The Six Rules."

FOOTNOTES

[1]American Institute of Accountants, *Round Table on Reacquired Stock,* p. 164.

[2]American Institute of Certified Public Accountants, *APB Accounting Principles,* p. 6007.

[3]The membership of the Institute did approve a resolution regarding the capitalization of interest at the annual meeting of 1918, but that resolution did not find its way into officially promulgated accounting principles. See Financial Accounting Standards Board, *Statement of Financial Accounting Standards No. 34,* Appendix A, Footnote 5, p. 13.

[4]American Institute of Accountants, *Audits of Corporate Accounts,* pp. 10-11.

[5]Carey, 1969, p. 175.

[6]Carey, 1969, p. 179.

[7]Dickinson, pp. 131-132.

[8]Ripley, p. 398.

[9]May, pp. 49-52 and 53-59.

[10]May, pp. 40-48.

[11]May, p. 92.

[12]Federal Trade Commission, pp. 650-652.

[13]Federal Trade Commission, p. 655.

[14]Richardson, October 1934, p. 243.

[15]Federal Trade Commission, p. 655.

[16]Federal Trade Commission, p. 662.

[17]Richardson, October 1934, p. 243.

[18]Carey, 1969, p. 165.

[19]Special Committee on Development of Accounting Principles, pp. 277-278.

[20]Richardson, December 1934, p. 408.

[21]Carey, 1969, p. 179.

[22]American Institute of Accountants, *Round Table on Reacquired Stock,* pp. 197-198.

[23]American Institute of Accountants, *Round Table on Reacquired Stock,* p. 199.

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A TOTAL INFORMATION SYSTEM FOR PHYSICIANS: c. 1897

Abstract: This note describes an account book designed for the use of physicians, from the late 19th century. In addition to financial records, the book provides space for recording details of the medical problem, prescribed treatment, patient condition, and other matters of concern to the doctor. Records were to be kept for each patient, with supplemental entries by type of case. The book represents an early attempt to provide a total information system for the user; a system in which all necessary information would be available without reference to other material.

Accountants are today being asked to provide information on a variety of business matters, of a non-financial nature. This growing tendency has led accountants away from the traditional approach to their work, which centered upon pure financial reporting, and has produced the concept of the total information system designed to furnish a broad spectrum of data. Extensive systems are now common, involving data banks, computer models and so forth, which are intended to give management different types of information for decision-making purposes. It is interesting to observe, therefore, an attempt to accomplish something similar, in a small way, many years before the advent of the computer with all of its attendant paraphernalia.

In 1897, O. E. Williams of Marietta, Ohio published *The Physician's Memorandum and Account Book, Combined and Complete.* (Williams had earlier published a similar volume entitled *The Dentist's Memorandum and Account book, Combined and Complete* as well as supplemental *Pocket Editions*. None of these items has been located.)

In the Preface to the *Physician's* volume, Williams notes that the medical practitioner must hold himself in readiness: ". . . at all hours to go at the call of a fellow-being who may need his services."[1] Because of these demands on his time and the uncertainty of his schedule, Williams says: ". . . he has little time to make such memoranda of each case as is really necessary for the patient's welfare, as well as to prevent mistakes on his own part, and which would, without doubt, prove to be of real value for reference in future months and years."[2]

Williams points out further that every physician has various records in his office. However, ". . . for the reason named, his records are not kept with the accuracy he would like; and again, when necessary to trace a case or account through these different books, the time required is an important consideration."[3]

The author offered his book to the attention of the medical profession, stating: "No other books are necessary, for between its covers is space for memoranda contained in the 'Visiting List,' 'Case Book,' 'Day Book,' and 'Ledger,' besides much other of a valuable nature."[4]

The book itself is quite large, after the fashion of most 19th century account books. It measures 15¾ inches high by 21 inches wide per double page. It is 2½ inches thick, bound in heavy boards with a ribbed back of leather. The title is embossed in gold on the cover. There are 300 pages available for entries, with both lefthand and righthand pages bearing the same number. Each page is headed with the title of the volume and page rulings are in blue and red.

The bulk of the volume, some 276 pages, is divided into sections for each letter of the alphabet. Each of the double pages carries the following column headings:

Name and Address
Age
Name of Disease
Record of Visits - Patient's Home - Condition
Record of Visits - Patient to Office - Condition
Record of Surgical Operations - Nature
Record of Obstetric Cases - Nature
Record of Prescriptions - Filled at Drug Store - Ingredients
Record of Prescriptions - Given by Self - Ingredients
Record of Accounts - Debit
Record of Accounts - Credit
Record of Accounts - Balance

Within each alphabetical division, several of the folios are divided, along the lefthand edge into five separate patient accounts, each with the following headings:

Consultation Record

Obstetric Record
Mortality Record
Vaccination Record
Case Record

Other pages, within each letter category, are divided into three sections for "Short Family Accounts," and some pages are left undivided for "Long Family Accounts."

Following the patient and family records are a number of pages for recording consultations. These provide space for such data as the patient's name, dates of consultations, details of operations, diagnoses, name of primary physician, other consulting physicians, and, of course, the financial records described earlier.

Next come obstetrical records which provide for the entry of the names of the parents, birth weight of the child, sex, color, dates of confinement and remarks. Following these are mortality records which include name, cause of death, date, marital status and dependents. Interestingly enough, neither the obstetrical records nor the mortality records provides space for entering financial data. (This is easier to understand in the case of mortality, perhaps, than in the case of a birth.)

The volume ends with sections devoted to recording vaccinations and other immunizations, and with several pages for entering detailed descriptions of special cases.

Essentially, *The Physician's Memorandum and Account Book* is a client ledger, providing for the direct entry of financial information along with considerable detail relating to the specific services provided and the status of the case. The information is segregated appropriately according to the activities of the user, and is further segregated by individual or family as the situation dictates.

Whether or not Williams was successful in his publishing venture is not known, although he had previously published a similar volume for dentists. He points out in the Preface that the high price of the book[5] (unfortunately not specified) is justified by its material quality, usefulness and longevity. Williams estimates that the book will serve a physician for three to five years of recordkeeping, probably correctly. The volume appears to provide space for most, if not all, of the records needed by a physician, especially a traditional country doctor. This total information system would allow him to evaluate and review any past cases, and, not the least, provide him with an up-to-date summary of the financial position of each patient.

The particular volume examined for this paper had not been used. It would have been interesting to see how the country doctor would have recorded various activities.

FOOTNOTES

[1]Williams, Preface.
[2]Williams, Preface.
[3]Williams, Preface.
[4]Williams, Preface.
[5]Market prices have apparently fallen. The particular copy examined was purchased for 50¢.

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JOHN CALDWELL COLT: A NOTORIOUS ACCOUNTANT

Abstract: John C. Colt was the author of a successful bookkeeping text which had many school adoptions and at least 46 editions. During an argument with Samuel Adams, his publisher, over the cost of his 5th edition, Colt killed Adams with a hatchet. Convicted of murder and condemned to execution by hanging, Colt committed suicide in prison in 1842. His text, *The Science of Double Entry Bookkeeping,* first published in 1838, continued in print until 1856.

John Caldwell Colt was the author of a very successful bookkeeping text which was published from 1837 to 1855 in at least 46 editions (so designated, although "printings" would have been more appropriate). He was born in Hartford, Connecticut in 1810 and died November 8, 1842.

The Colt Family

Colt was descended from John Coult who, with his wife Mary Fitch, emigrated from Colchester, England, and landed at Boston on September 4, 1633. He settled in Cambridge, Massachusetts (then Newton) and had a son John Colt (the name alteration appeared at this point) in 1658.

Benjamin Colt, the son of John, served in the Revolutionary War and later became a farmer in Hadley, Massachusetts. He married Lucretia Ely to whom Christopher Colt was born in 1780. Christopher left the family farm and sought his fortune in Hartford, Connecticut, where he married Sarah Caldwell, the daughter of Major John Caldwell, a wealthy leading citizen of Hartford.

Christopher and Sarah had six children: Margaret, 1806, Sarah Ann, 1808, John Caldwell, 1810, Christopher, Jr., 1812, Samuel, 1814 (the inventor of the Colt revolver) and James Benjamin, 1816. Christopher entered partnership with Michael Scott in the ownership of The Four Sisters, a sailing ship engaged in the West Indies trade. Business at first prospered but the War of 1812 weakened the partnership (and Major Caldwell's undertakings as well) and in 1820, after the Land Panic of 1819, the business went into bankruptcy. Christopher then established one of the first New England silk mills, in Ware, Massachusetts. This also was an unsuccessful venture. On June 16, 1821, his wife Sarah died of tuberculosis. Christopher was remarried March 12, 1823; his wife, Olive Sargent, the daughter of a prosperous Hartford merchant, was very careful with money and resented the large Colt family. John, aged 12, spent two years with an uncle on a farm at Burlington, Vermont.

Education and Business Experience

At the age of 9 John Colt had spent a year at the Academy of Reverend Daniel Huntington in Hadley, Massachusetts. While at Burlington he attended school and was a good student. After leaving the Vermont farm he returned home and requested permission of his father to attend Captain Partridge's Military School in preparation for entrance to West Point Academy. Instead, under the influence of Olive, his father had him apprenticed at the age of 14 to a store of the Union Manufacturing Company in Marlborough, Connecticut. John performed well and was transferred to Manchester, New Hampshire, as an assistant bookkeeper. After a year he returned to Hartford and entered an academy taking classical studies, to which he applied himself diligently, but after three months was withdrawn by his father. According to one account he then became a cabin boy on an Ohio River steamer.[1] He next appeared in Baltimore in 1827 where he became a teacher of mathematics in a ladies' seminary and also an assistant teacher in a Baltimore high school. When 18 he was offered the position of engineer-in-charge of the construction of a section of the canal of the North Branch of the Susquehanna River.

After a year of hard work in this position he enrolled at Wesleyan College in Wilbraham, Massachusetts, but, not long afterwards, his sister Sarah Ann, who alone of the children had remained at home, committed suicide by taking arsenic. She was 21 and John 19. Much affected by this, John enlisted in the Marines on July 8, 1829, with the intention of serving on the U.S.S. Constellation which was then being commissioned. However, he fell ill with a fever and was hospitalized for several weeks. After release, disliking the food, the companionship, and the duties, he requested a letter from his father advising the Marines that he was under age. His father refused, counseling him to serve his term and become a man proud of having done his duty. John forged his father's name to a letter which he had his brother Benjamin mail from Hartford. He was discharged from the Marines as a private on September 30, 1829.[2] Rywell states that he then followed the Mississippi river boats as a professional gambler. During a stopover in Cincinnati he was challenged by a wealthy young planter to a duel over a shared mistress. Sensibly, he returned to the river boats and found another mistress.[3]

In 1830, John was employed as a clerk in the office of Dudley Selden, Esq., a cousin who later defended him in his trial for murder. After a year he left to study engineering at the University of Vermont. An opportunity presented itself and John Colt withdrew to become a partner in a Great Lakes trading venture. This was successful and he purchased a farm in Michigan. However, the harsh winter weather adversely affected his health (he suffered from "weak lungs" all his life) and he left to tour the South. He travelled in Mississippi, Texas, and Florida, ending at New Orleans where he gave a series of chemistry lectures and speculated in land.

From 1834 to 1837, John spent his winters in New Orleans and his summers in Louisville, Kentucky, and Cincinnati, Ohio, where he taught accounting and operated what is believed to have been the first United States correspondence school. He wrote his bookkeeping text during these years and it was published by Nathan G. Burgess in Cincinnati. Here John also lectured in Dorfeville's Western Museum and later became manager of Frank's Museum. In 1838 he began a partnership venture with Burgess, operating as Colt, Burgess and Company. The firm had only one publication, *Delafield's Antiquities of America,* which was not financially successful and the firm lost over $1,000.[4] During 1838 and early 1839 Colt lectured on bookkeeping in Philadelphia and Boston.

John went to New York City in April, 1839. He rented an office from Asa H. Wheeler who had a large room in the Granite Building on the corner of Broadway and Chambers Street. Wheeler, a teacher of writing and bookkeeping, shared his room by closing large folding doors to set up Colt's smaller office. Colt employed himself revising his text and preparing bookkeeping lectures for the fall term. He also went about the publication of a new edition with Samuel Adams, of Scathered and Adams, as the publisher. It was this association with Adams that led to disaster.

John Colt's Trial and Death

According to R. M. Devens in a work published in 1876, the victim, Samuel Adams, was "a highly respected printer" to whom Colt had "for some time owed . . . a bill for printing, which he was unprepared to pay. The final call made by Adams, at Colt's room on Broadway, for a settlement of the account, resulted in a tragedy rarely equaled in the annals of crime."[5]

Devens does not say just how the killing was done but gives a detailed account of how it was discovered.

> The mysterious absence of Mr. Adams was the subject of universal comment in the newspaper press. The discovery of the murder was made through the instrumentality of Mr. Wheeler, who occupied a room adjoining that of Colt. About four o'clock, p.m. on the day of Mr. Adams's disappearance, Mr. Wheeler thought he heard an unusual noise in Colt's room, and was induced to go to the door and rap. Not receiving any answer, he looked through the key-hole, and saw two hats standing upon a table, and Colt kneeling upon the floor, as if scrubbing it. After waiting a little while, Mr. Wheeler peeped into the key-hole again, and saw Colt still engaged in the same operation. This excited his suspicions, and he caused a person to watch at the door all night. In the morning, Colt was seen to take a box, about four feet long and two high, down stairs. The box was directed to somebody in St. Louis, via New Orleans. Mr. Wheeler gave information of these facts to the mayor, who immediately instituted search for the box; it was found, after some difficulty, on board of the ship Kalamazoo, and in it the body of Mr. Adams, wrapped up in sailcloth and sprinkled with salt and chloride of lime.[6]

Colt was arrested, charged with murder, and tried. At the trial, a confession by Colt was read in which the killing was described.

> Samuel Adams called on Friday at my office . . . between the hours of 3 and 4 o'clock. . . . When he entered my office, I was sitting at my table . . . and was . . . engaged in looking over a manuscript account book . . . that is, I was reading over the entries and re-considering the arithmetical calculations belonging to the entries, &c. Mr. Adams seated himself in a chair near the table, . . . I spoke of my account, which he had at my request handed to me

ten or twelve days before. I stated to him that his account was wrong, and read to him at the same time the account, as I had made it out on another piece of paper, and requested him to alter his account as I had it. He objected to it at first, saying that I did not understand printing. He however altered his figures as I read them from my account, as I made the remark that I would give $10 or some such sum if I was not right. After he had altered his figures, and on looking it over, he said that he was right at first, and made the remark that I meant to cheat him. . . . Word followed word till it came to blows. The words "you lie!" were passed, and several slight blows, and until I received a blow across my mouth, and one which caused my nose slightly to bleed. I do not know that I felt like exerting myself to strong defence. I believe I then struck him next violently with my fist. We grappled with each other at the time and I found myself shoved to the wall, with my side next to the table. At this time he had his hand in my neck handerchief, twisting it so that I could scarcely breathe, and at the same time pressing me hard upon the wall and table. There was a hammer[7] upon the table which I then immediately seized hold of, and instantly struck him over the head. . . . The seizing of the hammer and the blow was instantaneous. . . . At the time I only remember of his twisting my neck handkerchief so tight that it seemed to me as though I lost all power of reason . . . . The first sense of thought was, it seems, as though his hand or something brushed from my neck downwards. I cannot say that I had any sense of reflection till I heard a knock at the door. Yet there is a faint idea still remains that I shoved him off from me, so that he fell over; but of this I cannot say. When I heard the knock of the door, I was instantly startled, and am fully conscious of going and turning the key so as to lock it. I then sat down, for I felt weak and sick. After sitting a few minutes, and seeing so much blood, I think I went and looked at poor Adams, who breathed quite loud for several minutes, threw his arms out and was silent. I recollect at this time taking him by the hand, which seemed lifeless, and a horrid thrill came over me, that I had killed him. . . .[8]

Colt was convicted, and the fatal day arrived when he was to pay the extreme penalty of the law for his crime. The scaffold was erected—the whole city surged with excitement—the crowd gathered around the prison was immense.

> At eleven o'clock, Rev. Dr. Anthon visited Colt's cell, in company with Colt's brother, for the purpose of marrying the murderer to his mistress, Caroline Henshaw. The ceremony was performed, Colt manifesting a deep interest in their child.[9]

He had some other visitors in the early afternoon, and then he

> desired to see the sheriff, who went into his cell. Colt then told him emphatically that he was innocent of the murder of Adams, and that he never intended to kill him; he also said that he had hopes that something would intervene to save him from being hung, and begged the sheriff not to execute the sentence of the law upon him. The sheriff told him to banish all hope of that kind, for he must die at four o'clock.[10]

However, he did not die upon the scaffold. After paying a final farewell to some friends, he asked to be left alone until the last moment. This was about two o'clock. His cell was closed, but it was thought that he might try to commit suicide, and at twenty minutes to three the deputy sheriff checked and found him walking up and down. After that no one entered his cell until five minutes to four.

> On the keeper opening the door, Doctor Anthon, who was first, threw up his hands and eyes to Heaven, and uttering a faint ejaculation, turned pale as death and retired . . . there lay Colt on his back, stretched out at full length on the bed, quite dead, but not cold. A clasp knife, like a small dirk knife, with a broken handle, was sticking in his heart. He had stabbed himself about the fifth rib, on the left side . . . he had evidently worked and turned the knife round and round in his heart after stabbing himself, until he made quite a large gash. His mouth was open, his eyes partially so, and his body lay as straight on the bed as if laid out for a funeral by others.[11]

Self Defense, Manslaughter or Murder

It seems probable that John Colt, because of the sensational publicity of the case, did not get an impartial trial. Colt's actions in attempting to avoid detection seem to have been given more weight than the actual struggle. Witnesses testified that Adams had a violent temper. According to Colt's confession, Adams struck the first blow to which Colt retaliated. Adams then attempted to choke Colt by twisting the neckerchief about his throat. Caroline testified to black and blue marks on John's throat in the days following the struggle.

The hatchet used, the rope bound around Adams' throat and later used to bind the body and the box into which the corpse was forced were in Colt's office and had all been seen by several witnesses before the day of the killing. The instant availability of the instruments of death and body-disposal seem to rule out a premeditated murder. Indeed, the first vote of the jury was 5 for manslaughter and 7 for murder.

The cold-blooded handling of Adams' body cannot have failed to influence the jury. In the first place, Colt struck Adams three blows of the hatchet, claiming, of course, that the first blows did not cause Adams to release his stranglehold. Colt's handling of the body was barbaric. He tied a rope around Adams' neck to stop the profuse bleeding. He disrobed the body and stuffed the hat and clothing into the building's indoor privy where they were quickly found in the course of investigation. He retained a gold watch, however, claiming intent to return it to Adams' family at a later date. Colt then bound the knees to the neck of the corpse to fit into the box. The body was wrapped in a piece of sailcloth and packed in salt before having the drayman deliver the box to the New York Harbor wharf.

Another fact that received adverse publicity for Colt was his living with Caroline Henshaw and her having a child out-of-wedlock. Despite the name of the child, Samuel Colt, Jr., no question of the actual parentage of the boy was raised in any of the *New York Herald* accounts of the trial or of John Colt's death. As is suggested below, John may not have been quite the villain he was portrayed to be at the time.

John's Wife, Caroline

Samuel Colt had brought Caroline Henshaw to North America by Atlantic Packet boat. During the one month trip they became romantically attached and, upon arrival in the United States, were married secretly[12] to keep the knowledge from Samuel's parents, who would have been quite upset by his marriage to a foreigner who could not speak English. Caroline spoke French, German, and Polish fluently but Samuel considered that he would be more favourably received in Washington, D.C., if he appeared to be unmarried; he believed that Caroline would hinder his social and government contacts, by which he was attempting to secure contracts for his revolver and repeating rifle as well as his invention of submarine batteries. As a result, Caroline was neglected and left behind in Philadelphia.

Here she met John, and in 1839, three months after his arrival in New York, Caroline went to New York City and lived in a boarding house. On May 11, 1841 she moved in with John in a room at 42 Monroe Street.

John taught Caroline English and grew very fond of her, although she was already carrying Samuel's child. It has been suggested that after the trial Samuel found John's sentence of death a way out of some of his difficulties. John was much indebted to Samuel for his support and for supplying funds for payment of legal and other costs of the trial and imprisonment. He was also fond of Caroline and interested in the child's welfare and readily agreed to a prison marriage in his Tombs cell just hours before his self-inflicted death. The child, born December 17, 1841, was named Samuel Colt, Jr.; it appears that Samuel intended that the name be changed to Samuel Caldwell Colt later but, probably due to Caroline's strength of character, this was never done.

After John's death Samuel provided for Caroline and the child, perhaps with the help of earnings of John's still successful text. Samuel arranged for her to relocate in Germany where Caroline became Miss Julia Leicester, niece of Col. Colt, Bonn, Germany, and Samuel, Jr., nephew of Col. Colt.[13] In 1857 Caroline married a young Prussian nobleman and army officer, Baron Frederick Von Oppen, and disappeared from known connections with the Colt family.[14]

John Colt's Suicide (?)

A rumor spread through New York City that John Colt did not die on November 18, 1842 as reported, but escaped prison dressed in Caroline's clothes just before the scheduled 4:00 p.m. hanging. A fire destroyed the cupola and a portion of the front building of the Tombs prison just at the time set for the execution. There were, also, reputed attempts by John's family and friends to bribe the Sheriff (said to have been offered $1,000 which he accepted and turned over to the city officers) and deputy keepers (said to have been offered $500 or $1,000 each). The rumor continued that the hastily assembled coroner's jury, which returned a verdict of death by suicide, contained not one person who had seen John Colt prior to that time. This is difficult to believe after the widely publicised trial. In addition, Rev. Dr. Anthon, who married John and Caroline, was stated to have been the first to discover the body in the cell at five minutes to four. Nevertheless, the rumor persisted, and a few years later was revived when Samuel M. Everett, while riding through the Santa Clara Valley in California, thought he recognized John Colt on a large ranch with a blond wife and two beautiful children.

> But this man, whom Everett was certain was his old friend, John Colt, stated his name to be Don Carlos Juan Brewster; Everett apologized, and the next day continued his journey.[15]

After John's suicide his body was reputedly released to his family and interred by them in an unknown location. In the fall of 1850 Samuel Colt purchased a lot in Greenwood Cemetery. Caroline later stated that Samuel Colt had promised to convey this lot to her, presumably as a family plot for John and his family.[16] Perhaps John Colt's body may have reached its final resting place here.

FOOTNOTES

[1]Rywell, p. 74.

[2]There is some confusion about Colt's service in the Marines. Edwards gave exact dates of enlistment and discharge "as a private." (p. 116) However, Rohan stated that John rose from private to corporal to 1st sargent (pp. 38-39). Rywell also stated that Colt was promoted to 1st sargent (p. 74).

[3]Rywell, p. 74.

[4]*New York Herald,* January 27, 1842. Testimony of N. G. Burgess.

[5]Devens, p. 531.

[6]Devens, p. 531.

[7](authors' note) Colt used the word "hammer" but the trial testimony clearly established that it was a hatchet.

[8]*New York Herald,* January 28, 1842.

[9]Devens, p. 531.

[10]Devens, p. 532.

[11]Devens, p. 532.

[12](authors' note) John Colt's later marriage to Caroline raises the possibility that no legal marriage took place.

[13]Edwards, p. 309.

[14]Rywell, p. 139.

[15]Edwards, p. 183.

[16]Rvwell, p. 139.

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BOOK REVIEWS

Linda H. Kistler, Editor
UNIVERSITY OF LOWELL

Thomas J. Burns and Edward N. Coffman, *The Accounting Hall of Fame: Profiles of Forty-one Members* (Columbus, Ohio: The Ohio State University, 1982, pp. vi, 104, single copies available upon request).

Reviewed by
Kathryn Verreault
Bentley College

Possible themes for a book on the forty-one members of the Accounting Hall of Fame are numerous. The book could center around a chronological development of contributions in accounting by selected individuals. A grouping of contemporaries and their respective contributions might constitute an interesting theme. Accounting contributions summarized by subject also could be constructed creatively. The contributions of these individuals organized by economic similarities might also produce a successful book. This book contains none of the above.

Instead, forty-one alphabetic profiles comprise this book. No more. No less. Each profile is accompanied by a sketch of the respective member. Any narrative exceeding the first page is located at the end of the book. This magazine-style format has been adopted throughout.

The contents of this book could have been made interesting and informal. Each member's contributions could have been summarized in a meaningful manner rather than the mundane recitation of details. For instance, educational contributions could have been isolated from theoretical or research contributions. Professional contributions might have been emphasized as such. Any rational summary of material would aid the teacher. Unfortunately, the content does not follow any recognizable method of analysis.

Each profile seems similar to a "Who's Who?" listing in terms of both style and content. An analysis of three random profiles tracing

"Who Was Who" content supported this suspected overlap. Fact after fact is listed with little attempt to project the personality of the individual. Perhaps if the number of people under review was large, this would be acceptable. Forty-one, however, is a manageable number for which to prepare a summary of contributions in an informative, readable structure.

A crisp, clear introductory summary of reasons for an individual's selection to the Accounting Hall of Fame would have been appreciated by this reader. The detailed profile would then flow from this summary. As an alternative, a final summary of achievements might contain this information.

A summary—any summary—would help. About all one might conclude from reading this book is that the individuals read much, wrote much, worked much, and in summary contributed much. They must have enjoyed little leisure time and their private lives are barely noted. A summary of contributions from all individuals should have been generated. An analysis by educational contribution, research contributions, theoretical contribution, chronological contribution, charitable contribution—any contribution—would improve the value of the book. The achievements of the individuals certainly were noteworthy, but this reviewer believes they have not been properly recognized.

In summary, this book can be judged by its cover. Forty-one profiles of Accounting Hall of Fame members. No less. No more.

C. W. DeMond, *Price Waterhouse & Co. In America* (New York: Comet Press, 1951. Reprint Edition, New York: Arno Press, 1980 pp. ix, 356, $35.00).

Reviewed by
Robert Jennings, Jr.
Indiana University Southeast

In *Price Waterhouse & Co. in America,* Arno Press has reprinted C. W. DeMond's 1951 history of the accounting firm in the United States. Originally printed for internal distribution only, this work provides an historical insight to the development of Price, Waterhouse & Co. and to the development of many of our accounting standards. Most chapters contain interesting discussions of accounting issues and growth problems of the profession (if one can skip the numerous required references to various individuals of the company).

The book traces the origins of the partnership of Price, Waterhouse & Co. from London in approximately 1865. At this early stage,

> "The principal work undertaken consisted of liquidations, bankruptcies and arbitrations, but another important contribution to the practice was the introduction of prospective borrowers of money to those who had funds available and were prepared to lend them." (p.2).

Activities began in the United States as early as 1873 primarily with mergers and audits of the U.S. related subsidiaries of British firms. Most work papers and report drafts were sent from the original New York or Chicago offices to London for review. Finally, in 1895, with the establishment of Jones, Caesar & Co., direct accountability to London ceased, and a new American firm began.

The partnership of Jones, Caesar & Co. retained a distinctly British flavor for many years as evidenced by the influence of its first senior partner, Sir Arthur Lowes Dickinson, appointed in 1901. The reader is introduced at this point to many of the difficulties faced by accountants at the turn of the century including, surprisingly, problems with the media. At the turn of the century, an American brewery wished to reduce depreciation expense in order to permit a dividend payment, and several Chicago newspapers immediately agreed, stating that

> ". . . the whole charge was an invention of these tiresome English Accountants, got up to rob the poor ordinary shareholder of his capital dividend." (p.22)

Additional accounting problems encountered included treatment of contingencies and the desire by some companies to show stock dividends received as income.

As the growth of the firm is chronicled, the author discusses new offices established throughout North and South America including the first offices of a national firm in such cities as Detroit, Los Angeles and Seattle. Although tedious at times, the discussion includes theoretical descriptions and various anecdotes which help to enliven the reading. Spurring continued growth of the firm were the introduction of income taxes, escalating mergers and consolidations, and ever increasing audit engagements. At times the early progress of the firm seemed to mirror the American economy as marked by business expansion and panics, but growing regulatory demands provided the major impetus.

Early partners were very active in the establishment of various professional societies. In 1904, Joseph E. Sterrett was named the chairman of the first International Congress on Accounting in St. Louis. By 1910 this activity had propelled another partner to nationwide prominence and through him, Price Waterhouse & Co. achieved a level of success previously considered unattainable. Although Dickinson had provided the foundation, it was through George O. May that the firm achieved fame.

George O. May, a partner for thirty-eight years, led Price Waterhouse through the period during and after World War I, the stock market crash of 1929, the rise and fall of offices during the depression, and ultimately, the McKesson-Robbins case. A major innovator, he published the first formal standard audit report as well as numerous other authoritative works. During World War I he considered employing women to alleviate the manpower shortage. A major force in achieving cooperation between the New York Stock Exchange and the American Institute of Accountants, May was associated with Price, Waterhouse & Co. until his retirement in 1940.

The author's last chapter of significance deals with the McKesson-Robbins case of 1938 and 1939. Although the firm is ultimately absolved of all responsibility, DeMond goes to great lengths to support the work of Price, Waterhouse & Co. and to provide justification for the audit work, or lack thereof, performed in this situation. Prior to McKesson-Robbins, generally accepted auditing standards did not require the actual observation of physical inventory or the confirmation of receivables. Subsequent discovery of management fraud and collusion in this case forced a re-evaluation of the auditors' responsibilities. Price Waterhouse & Co. ultimately repaid the entire audit fee of approximately $500,000.00, although the firm maintained that it had acted entirely within the scope of accepted practice at the time.

Apart from numerous references to personnel changes and transfers, this book provides valuable background information on many accounting practices and procedures used today. The reviewer believes that students of accounting history and educators will find this work immensely helpful in understanding the development of accounting principles and the accounting profession in the United States.

Esteban Hernandez Esteve, *Contribucion al Estudio de la Historiografia Contable en Espana* (Madrid: Banco de Espana, 1981, pp. 210, 100 pesetas).

Reviewed by
Mark Roberts
Georgia State University

This book, in Spanish, was prepared for the Fourth Annual Congress of the European Accounting Association held in Barcelona, Spain during April 13-15, 1981. It provides an overview of the history of Spanish accounting. Hernandez has collected the records of merchants, bankers and teachers in an effort to chronicle the origins and accounting developments of his country. He supports the approach of Karl Peter Kheil (1843-1908), a Czech, who believed that a complete understanding of accounting was unattainable without a sound knowledge of accounting history.

Kheil compiled a list of twenty-eight Spanish professional businessmen who maintained some accounting records during the sixteenth century (two of the more prominent were Bartolome Salvador de Solorzano and Miguel Jeronimo de Santa Cruz). Few of these men wrote exclusively about accounting. In fact, most of the topics centered on mathematics and law with perhaps an article or chapter dedicated to accounting or bookkeeping. Accounting and calculation were often mutually exclusive fields in different parts of the Iberian Peninsula. In Spain, facets of accounting were often subsumed under various headings, including

1. Commercial Accounts
2. Theoretical and practical mathematics
3. Law (including administrative interpretations)
4. Spelling and mathematics
5. Accounting and bookkeeping

Many of these books and records are based on methods explained in Latin and indicated the use of double entry.

Traditionally, accounting was viewed as a part of mathematics and not worthy of serious consideration as a separate discipline. The Renaissance heralded the development of financial accounts as a part of commerce (instead of a sub-discipline of mathematics). Slowly it was realized that maintaining financial records was an integral part of daily business affairs. In 1549, Mario Pardo de Figueroa persuaded some of the merchants of his day to record their accounts according to the double entry method, as explained by Bartolome Salvador de Solorzano, in order "to protect themselves from fraud and to stay out of jail."

An inherent characteristic of Spanish attitudes is individualism. Records and notes from early Spanish accountants offer individual insights into commerce and lifestyle as well as accounting techniques. This spirit of *voluntad,* coupled with the Spanish regional loyalties and diversities, explains why the serious study of Spanish accounting history is of only recent origin.

Hernandez presents a very well documented and scholarly work that sheds insight into the nature of Spanish accounting history. The work is also very readable and never becomes overbearing or pedantic; his aim is to give the reader an overview of the main contributors and their disciples. He carefully notes that there is still a great deal to document, and that the next few years should produce not only more information on Spanish accounting history, but also history in the making. There is an extensive bibliography of books and other sources which should be helpful to those wishing to conduct research.

Leonard W. Hein, *The British Companies Acts and the Practice of Accountancy 1844-1962* (New York: Arno Press, 1978, pp. 385, $25.00).

Reviewed by
Christopher Noke
The London School of Economics and Political Science

An historical study of the law relating to company accounting casts light on many aspects of current practice, and the factual content of this book may prove of interest for that reason alone. Hein's specific purpose, however, is to examine the interaction between the developing law and the profession of accountancy, and he uses a historical framework to seek answers to three questions: (i) the extent to which increasing legislative control arose from the failure of the profession to control its own practices, (ii) the source of the pressures for increased control, and (iii) the effect of the controls on the development of accounting and the accounting profession.

Although the bulk of the text examines the evolution of the accounting aspects of company law since 1844, Hein's objective requires consideration also of the concurrent growth of the accounting profession. There is a useful summary of professional development in both the United Kingdom and the United States, dealing with such matters as attempts to exclude the unqualified from the profession and attempts to control the qualified. Clearly one chapter cannot do justice to this topic but it helps lay the groundwork for some of his conclusions—in particular that, despite the highminded principles of most of the professional societies, their inability to control those participating in the profession and to enforce those principles on clients and the business community in general led to other ethically-minded groups (lawyers, chambers of commerce and the like) seeking legislative controls to strengthen the position of accountants. Written before the advent of accounting standards, the book contains warnings of further governmental intervention if the profession (in both countries) fails to put its house in order.

Apart from a chapter of doubtful relevance on the history of the corporation through boroughs and gilds merchant prior to 1844, the legal aspects of accounting are treated by topic rather than by simple chronology. The book contains separate chapters on the auditor, the balance sheet, profit and loss statement and group accounts. The drawback of this arrangement is that it is often difficult to get an overall impression of the impact of each Act, and as a narrative the end result is not as clear as in, say, Edey and Panitpakdi's essay 'British Company Accounting and the Law 1844-1900'. (Incidentally, despite an extensive bibliography, Hein makes no reference to that important essay, published in *Studies in the History of Accounting* in 1956. Edey is mentioned on page 240 in connection with his evidence to the Jenkins Committee, but his name is misspelled.)

Nevertheless, Hein deals with much of the material—particularly the abortive attempts at legislation between 1877 and 1899—in greater detail than is usually found elsewhere. The chapters on the Prospectus and Dissolutions touch upon important areas of the accountant's work often overlooked in similar studies. He includes from the report of the Gladstone Committee a nice example of an early prospectus in which one of the named auditors was the porter at the company, and the table he produces from the report of the 1867 Select Committee showing the number of liquidations handled by accounting firms—one firm having an average of 20 per partner—may well be a pointer to the comparative indifference then shown by some accountants to financial reporting.

However, as far as control of financial statements is concerned Hein perhaps places insufficient emphasis on the Cohen Report of 1945, which, among other things, adopted verbatim the definition of a balance sheet in the submission of the ICAEW (probably the first time that such a committee had considered the function of that statement) and accepted the Institute's recommendation to delete reference to 'values' of fixed assets contained in earlier legislation, effectively rooting financial reporting in the historical cost convention.

The main primary sources used are Committee Reports, minutes of evidence, draft bills and final enactments, and from the weight of material available the author has chosen some apt illustrations. Those familiar with the part played by Sir George Jessel in early English dividend law will appreciate his remarks to the 1877 Select Committee: "As I have said before I have an utter distrust of these pieces of paper called balance sheets." (p. 199) and "Profit, of course, is a mere matter of estimate." (p. 250) But even good quotations do not bear repetition and Robert Lowe's famous remark about the state having "no desire to force on these little republics any particular constitution" does not warrant quoting twice. Needless repetition is, perhaps, the most irksome feature of the book.

There are problems in concentrating almost exclusively on parliamentary and similar documents. For example, we are told (p. 77) that "it was not until 1907 that the ordinary business corporation was again required to publish a balance sheet." (The fact that Hein states (p. 192) "the production of a balance sheet did not again become compulsory for ordinary companies until 1908," a fact reasserted (p. 348), is an inconsistency one would not expect to find in a doctoral dissertation.)

But while it is true that the 1900 Act did not spell out the need for a balance sheet, that need appears to be implied by the sections on audit, and Buckley J.'s decision in *Newton v. Birmingham Small Arms* in 1906 may be interpreted in this way. Hein, however, does not examine how any of the statutes were interpreted in the courts and the resultant impact of case law on the practice of accounting. There is no mention of any of the dividend cases, nor even of the *Royal Mail* case. Some of his conclusions may also be slightly coloured by his choice of primary sources. While using the minutes of evidence, he rightly highlights the inconsistencies and *voltes faces* of many of the professional bodies (in relation, for example, to group accounts, secret reserves and qualifications of auditors); his overall conclusion, that "accountants abnegated their potential role as leaders in developing accounting legislation" (p. 354) overlooks the potential impact of unofficial pressures. For example, even though the ICAEW made its first formal submission to a company law amendment committee in 1925, Aranya has suggested, in his study of pressure groups, that in many respects the 1900 Act reflected the views of the ICAEW as presented in *The Accountant,* rather than those of the Davey Committee on whose recommendations it was nominally based.

The book was written in 1962 while the last major company law amendment committee was sitting. The subsequent entry of the UK into the European Economic Community has brought about fundamental changes in the way amendments to company law are considered. Hein's note that throughout this period there was a continuing trend of recommendations towards a uniform balance sheet, and the imposition of prescribed formats of accounts in the Companies Act 1981, as a result of the EEC 4th Directive, both illustrates that change and rounds off a part of his story. Accountants who believe themselves too constrained by such prescription will find little joy in Hein's observation (p. 242): "Once statutory treatment of an item is achieved it is rarely challenged in the sense of a reversal towards greater freedom of presentation."

J. Slater Lewis, *The Commercial Organisation of Factories* (London: E. & F. N. Spon, 1896. Reprint Edition, New York: Arno Press, 1978, p. vii, 540, $42.00).

Reviewed by
Walker Fesmire
The University of Michigan-Flint

This work presents a detailed accounting of how to organize and conduct the operations of a steel mill, written at the turn-of-the century. The author offers a practical approach, and spends considerable time dealing with insignificant items and/or procedures. His emphasis on minutiae makes it difficult to hold the reader's interest. For example, in Chapter XVI, Lewis requires eight pages to discuss the duties and attributes of a factory gatekeeper including a discussion of the type of woman who should be his wife! He devotes Chapter XII to ordering, accounting for, and control of stationery. These are only a few of the many minor topics that comprise this work. On page 161, he describes the office accommodations for a mill foreman: "each foreman must have an office in a conspicuous part of his shop, from which he can obtain an uninterrupted view of his men. It should be raised several feet above the level of the floor, and be provided with as many windows as possible as well as have a clock and a wash-hand basin with towels."

Although this work is heavy on detailed descriptions, Lewis does offer insights into the environment of the British business world of 1900. Many so-called "recent" business developments have been with us since the beginning of the century, for example, the emerging influence of women on business. On page 25, he praises the addition of lady cashiers. As to lady clerks he notes (p. 47) that "there are thousands of young women earning a respectable livelihood as shorthand writers and typists . . . some male clerks resent the intrusion of women." He observes that women are expanding their opportunities in the changing arena of employment (p. 77) and notes that "lady draughtsmen . . . are now being employed . . . it is clear that they are destined to fill a very important position in . . . the new drawing office."

Lewis notes the effects of technological change when he cites the possible future influence of the phonograph (dictaphone) and the typewriter. This discussion helps one to understand and appreciate the technological developments that have occurred this century and to recognize that changing technology is hardly a recent phenomena.

The legal responsibilities of a manager towards workers are briefly presented in his discussion of the "Factories Act." (pp. 133-4. On a related legal topic, he touches upon the problems of checking the references of prospective workers (p. 135) as well as the issuance of letters of reference. He considers the legal limitations placed upon employers taking disciplinary action against workers.

Without illustrating the accounting flow, the author devotes several chapters to discussing such cost accounting matters as prime costs, overhead, inventory handling, plant assets, and shipping costs. In these areas, he has included illustrations of many business forms (sales invoices, etc.) that might be adopted.

In summary, by avoiding being overcome by the details and minutiae of this work, one can obtain considerable insight into the level of British business development around 1900. Furthermore, one can appreciate the problems facing business during the early part of this century as well as obtain a feeling for technological developments and operational changes that have occurred since.

Robert H. Montgomery, *Fifty Years of Accountancy* (New York: Ronald Press, 1939. Reprint edition, New York: Arno Press, 1978, pp. xi, 679, $40.00).

Reviewed by
Geofrey T. Mills
The University of Northern Iowa

This book is part of the Arno Press series "The Development of Contemporary Accounting Thought." It is the reprint of Montgomery's memoirs, first published in 1939, and recounts his life in law, accounting and public service. Montgomery wrote in a lively, very readable prose, and his pages are littered with anecdotes and asides which can be quite amusing. The book reflects his somewhat cynical, iconoclastic view of the world. The person who emerges from these pages is a loveable curmudgeon who lived life in the fast lane, at least prior to World War II. The book is thoroughly enjoyable, and is recommended to anyone interested in a participant's-eye view of the nexus between the accounting profession and government service.

The book is divided into two sections. The first is Montgomery's personal memoirs which occupy some 235 pages of the book. This section is by far the better of the two, as the other section, roughly 445 pages, was added as an appendix for "published reports, papers, and prefaces by the author pertaining to accounting, tax, and public problems throughout the years 1904 to 1939." The appendix contains such items as Montgomery's response to the welcoming address for foreign delegates at the 1933 International Congress on Accounting, and the prefaces of his many books. These materials add nothing to the essential story line and in most cases are trivial. The only gem is Montgomery's report on the hearings of the War Policies Commission. The WPC was established in late 1930 to investigate the munitions industry, to determine whether there may be a method to "take the profits out of war." Montgomery's report is intriguing, although his recommendations were unacceptable to the WPC. He appears to have been too liberal for the rest of the committee.

In summary, however, the book would be more interesting without the Appendix and it can be ignored without destroying continuity.

Montgomery's memoirs are divided into four parts: public accounting, taxes and the practice of law, war, and hobbies, with the best material contained in the middle two sections. Parts one and four contain the alpha and omega of Montgomery's life, and it is clear that he regards these two as of lesser importance. "Public Accounting" is an account of how he stumbled into accounting, his education, work habits, organizational interests, etc. This section may reinforce one's view of life in turn-of-the-century America. Montgomery is a sort of Horatio Alger, a true self-made man. Poor in background and resources, he had to quit school to help support his family and only obtained an education through sheer tenacity. Like many men of his generation, he sought his fortune in business and set a course in the accounting profession. He developed an outstanding practice and reputation, and using his contacts and clients, was appointed to many public sector jobs in World War I and later. Those were the days when businessmen were recruited for public service on the basis of their reputations and were not, as a rule, scrutinized as carefully as they are today. Part four, "Hobbies" may be of limited interest to many because of Montgomery's self-righteous and patronizing airs.

In the middle two sections Montgomery describes his role and views on some of the great public policy issues of the early Twentieth Century. Here is an "insider's" account of the historical development of the income tax and the 16th Amendment to the Constitution. The author regards these laws as hardly more than "soak the rich" schemes, yet provides an interesting account of taxation practice before World War II. Montgomery's sardonic wit adds spice to his narrative. This section also contains details of his many books on tax and accounting, as well as some of the speeches, addresses, and papers he delivered to many professional organizations.

Part three on "War" may be the most interesting section. Montgomery came to occupy many positions of high public trust during and after World War I. His work for the War Department, the War Industries Board, and the WPC was distinguished. Montgomery was one of a small legion of "Dollar-a-year-men" who were appointed to government positions without pay during these decades, returning to private life after the job was concluded. He offers first-hand accounts of these agencies, their operation and importance.

R. H. Parker, Editor, *British Accountants: A Biographical Sourcebook* (New York: Arno Press, Inc., 1980, no pagination, $25.00).

Reviewed by
Lee D. Parker
Monash University, Melbourne, Australia

Professor Parker has provided a fascinating collection of previously published biographical pieces that provide some insight into the lives of men who have been prominent figures in the history of British accounting. The book is a useful sourcebook that provides easier access to existing information about the founders of the British profession, and encouraging biographical research in accounting history.

It contains the biographies of 65 accountants; 56 of them obituaries, for the most part, originally published in the *Accountant*. The editor's introductory remarks cover eleven pages and outline literary sources, criteria for inclusion, the Scottish influence on British accounting, social origins of the accountants included in the book, the work of the accountant, text-book writers, accounting and the universities, and Knights, Baronets and Peers. The biographies themselves are reproductions of the originally published biographies (the actual typeface of the original publication) and 29 include a photograph of their subject.

The collection covers notable accountants of British birth who spent most of their working lives in Britain. Of particular interest to the general reader are the biographies of men whose names have survived through association with prominent national and international firms. These include McClelland, Price, Young, Cooper, Deloitte, Whinney, Waterhouse, McLintock, Touche, Peat, and Marwick. Also worthy of note are the biographies of leading textbook writers such as Dicksee, Pixley, Dickinson, Carter, Leake, de Paula, and Spicer.

Although it is a valuable resource, this book undoubtedly would have further benefited from some modest editing to make the reader's task a little easier. Numbering of the book's approximately 147 pages would be most useful to general reader and researcher alike, as would the provision of a comprehensive index. Each biography would benefit from the inclusion of birth and death date and source of reproduction. While recognising that the book is intended as a "source book," the extension of already valuable introductory editorial comments and analyses would be welcomed.

When so many biographies are read together, a number of general impressions are formed. Many British accountants were politically active or politically "connected." Many also served on government posts or committees, advised government or took part in Royal commissions. Some accountants exhibited a wide range of community interests and involvement while others were devoted solely to their profession. Accounting teachers and textbook authors were invariably professional practitioners who displayed an academic talent and commitment. Nor could it be said that they were all staid and sober; Parker's biographies include poems written by and about such men.

This book represents an invaluable addition to works in accounting history. Moreover, Professor Parker's editorial raises a series of important questions that await the attention of researchers. Nevertheless the book deserves the attention of an even wider audience. It provides material which could usefully be included as background material in financial accounting and auditing textbooks, thus introducing students to the traditions of the profession. It also provides anecdotal material for accounting teachers to include in undergraduate lectures and a data bank for historical material that can be introduced at the postgraduate level. Undoubtedly, the researcher, teacher and general reader will find within the pages of this book a rich resource indeed.

Gary John Previts, *A Critical Evaluation of Comparative Financial Thought in America 1900 to 1920* (New York: Arno Press, 1980, xii, 259, $22.00).

Reviewed by
Robert M. Kozub
The University of Wisconsin-Milwaukee

A Critical Evaluation of Comparative Financial Accounting Thought In America, 1900 To 1920 was written by Gary John Previts as the dissertation requirement for the degree of Doctor of Philosophy at the University of Florida in 1972. The title suggests his intention to discuss early twentieth-century accounting theory. Previts begins the discussion by establishing the existence of a Preclassical School of Thought, and doing so, presents an excellent history of early twentieth-century accounting. Included in this analysis are the theories of Cole, Dickinson, Esquerré, Hatfield, Kester, Montgomery, Sprague, and Wildman.

This book, which consists of eight chapters, discusses four major topics:

1. The environmental elements of the Preclassical era,
2. The contributions of the Preclassicists to asset valuation theory,
3. The contribution of Preclassicists to income determination theory, and
4. The legitimacy of labeling the Preclassicists as a distinct School of Thought.

Previts devotes two chapters to the environmental factors which influenced the Preclassicists. The first deals with the economic and social events of the early twentieth century which shaped the institutions of our age. The second relates how social and economic events affected the financial accounting duties of accountants during the era.

Previts warns against overgeneralization of the contributions of the Preclassicists to accounting theory, emphasizing that their era was one of initial inquiry. Nonetheless, preclassical valuation theory was, according to him, surprisingly complex. Among the contributions of Preclassicists were both a theory of depreciation and appreciation. In Chapter Four, Previts discusses several other theoretical concepts suggested by the Preclassicists, which were sufficiently valid to modify the pure historical cost valuation model. Previts states that "[P]reclassical cost modification theories also supplied the precedent from which the subsequent inquiry of Classical accountants would be patterned—as in the search for a specific price-level theory" (p. 148).

In discussing Preclassical accounting income theory, Previts acknowledges its strong dependence upon economic concepts. During the Preclassical period the income statement acquired nearly the same importance as the balance sheet. Because of this, Previts argues that it is incorrect to consider the Preclassicists merely balance sheet accountants. By establishing a modified cost valuation theory, the Preclassicists identified with and modified the indirect approach to income determination. Their modification of the indirect approach created a basis for the emphasis on income theory among Classical accountants.

Previts presents a convincing argument for classifying accounting theorists of this era as a distinct school of thought. For its enlightening perspective, his book is highly recommended to anyone with an interest in the development of accounting theory.

Earl A. Saliers, *Principles of Depreciation* (New York: The Ronald Press Company, 1916. Reprint edition, New York: Arno Press, 1980, p. xii, 200, $18.00).

Reviewed by
W. T. Wrege
University of Wisconsin-Milwaukee

The purpose of Saliers' book was to develop a justification for charging depreciation expense in the determination of income, and for writing down assets over their useful lives. The author's earnest attempt to convince the reader that depreciation should be charged over the lives of assets began by pointing out that, relatively recently, vast amounts of wealth had been invested in large corporations. Through depreciation charges, companies could recover the cost of capital from the normal operations of the business. Failure to charge for depreciation would result in an overstatement of profits and (possibly) in dividend payments which included returns of capital.

Several events occurred early in this century which made income determination more important. Most states had passed laws prohibiting companies from distributing capital when paying cash dividends. Public utilities were operating as monopolies; and regulatory agencies had to determine what constituted an adequate return on investment. Widespread absentee ownership of large corporations made income determination important to investors in their evaluation of returns on their investments. The newly enacted income tax law made income determination important for taxing purposes.

From these information needs, the author extended his argument for using depreciation charges by citing court cases, public commission pronouncements, and practices of accountants in the United States and Britain. The author conceded that the charge for depreciation is indefinite, but he asserted that the magnitude of investment by large corporations demanded that the problem of determining depreciation charges be "mastered."

The author's first chapter, entitled "Character of Industrial Plant," discussed the accumulation of depreciable assets and defined depreciation as "the loss of value, whether tangible or intangible in form, resulting from physical decay, or from obsolescence or inadequacy, which indicate functional decay" (p. 22).

The author next presented the process of recording depreciation. Using a hydroelectric plant as an example, he first established the costs to depreciate. Through the use of a plant ledger, Saliers described the adjustments required to record charges for depreciation. The author then distinguished between depreciation reserves and depreciation funds. Depreciation reserves were described as the accumulation of charges to reduce apparent net profits to actual net profits by writing down book value of assets to actual values. Depreciation funds were amounts actually created for the purpose of replacing buildings, machinery, etc.

The author's use of the term "value" is somewhat disturbing to the current reader because of contemporary recognition of current value, entry value, exit value, etc. Saliers' methods for determining and charging depreciation, however, more clearly show his intention to allocate costs to periods of benefit. The reader would be better served by focusing on the latter point rather than trying to guess what the author meant by value.

In the next part of the book, Saliers developed the propriety of the charge for depreciation. As mentioned earlier, Saliers used court cases, rulings by public commissions, and actions of accountants in the United States and Britain to justify his position throughout this discussion.

In the final section, Saliers described various methods of depreciation in use during the period in which he wrote. They include the straight line method, the reducing balance method, the sinking fund method, the annuity method, the equal annual payment method, and the unit cost method. Some of these more complicated methods are little discussed today.

This book is valuable from several standpoints. While depreciation charges are considered normal and proper today, they were viewed with suspicion in 1915. Contrast Saliers' view of charging depreciation with Paul-Joseph Esquerré's:

> ". . . charges made to operations under the title of 'depreciation' often contain, if the truth were known, provisions for unknown quantities, the ultimate result being the perversion of accounting truth." (Esquerré, 1914; 372)

While we describe the allocation of costs to periods of benefit to introductory accounting students today, in 1915 justifying the propriety of depreciation charges through logic and by citing court cases, public commission actions, and the practices of accountants was necessary in order to develop a theoretical foundation and to obtain general acceptance of the practice.

This book would be useful to those interested in accounting for utilities and rate making. The author focused on the benefits and techniques of charging depreciation in railroads and utilities. It will also interest scholars of early development of the depreciation charge. Most importantly, the book provides an insight into the struggle and progress of an earlier theorist.

REFERENCE

Esquerré, Paul-Joseph, *Applied Theory of Accounts,* New York: The Ronald Press Company, 1914.

Michael Schiff, editor, *The Hayden Stone Accounting Forums* 1962-1967 (New York: Arno Press, 1980, irregular pagination, $35.00).

Reviewed by
James J. Tucker, III
Pennsylvania State University

During the period 1962-1967, Hayden, Stone & Co. (HS), a prominent investment house, sponsored six annual accounting forums that were hosted by New York University (NYU). This book consists of four pages of introduction by the editor, followed by verbatim transcripts of the proceedings of all six seminars.

HS regularly conducted "off-the-record forums" in which corporate executives "appeared before institutional investors to discuss the current operations and prospects for their companies." However, in 1962 it became apparent to the research department of HS that their clients had a strong interest in certain accounting issues currently before the Accounting Principles Board (APB). Consequently, HS requested the assistance of Professor Michael Schiff in organizing an accounting forum to be held at NYU; this arrangement continued for the next five years.

A typical forum convened with a "welcome" address delivered by Professor Schiff, followed by introductory remarks by the president of Hayden, Stone. Three formal presentations were then made by the keynote speakers who the editor describes as "primarily managing partners of 'Big Eight' professional accounting firms." Some of the speakers served on the Accounting Principles Board and as presidents of the AICPA. Other speakers were corporation executives, lawyers, an SEC Commissioner and a member of the academic community. In addition, "the audience of several hundred persons consisted of senior financial officers of large corporations, financial analysts, officers of large investment houses, professional accountants and a very small representation from academe. The entire membership of the APB was in the audience at one of the sessions." Upon completion of all presentations, the speakers entertained questions for the audience. The presentations are summarized below, preceded by the theme of each seminar:

1962: *Impact of Accounting Changes on Corporate Earnings*
John W. Queenan, "Depreciation Guide Lines and Rules," 7 pages (p.); Herman W. Bevis, "Accounting for Leases," 4 p.; and Thomas G. Higgins, "Price Level Depreciation," 8 p., Questions & Answer session, (Q & A), 2 p.

1963: *The Impact on Business of Self-Regulation in the Accounting Profession*
Robert E. Witschey, "The Business Need for Better Accounting Principles," 5 p.; Alvin R. Jennings, "The Accounting Profession's Responsibility in Determining Accounting Principles," 5 p.; and Leonard Spacek, "The Treatment of Goodwill in the Corporate Balance Sheet," 7 p.; Q & A, 4 p.

1964: *How the Tax Rules Invade Accounting Principles and Affect Reported Earnings*
David B. Chase, "Tax Accounting and Financial Reporting," 4 p.; Donald C. Cook, "Depreciation, the Investment Tax Credit and Leases—Tax vs. Accounting," 8 p.; and J. S. Seidman, "Tax Practice vs. Accounting Practice," 3 p.; Q & A, 6 p.

1965: *Improving Financial Accounting and Reporting*
Herman W. Bevis, "Earnings per Share and the Need for Full Disclosure," 7 p.; Clifford J. Heimbucher, "Current Developments at the APB," 5 p.; and Byron D. Woodside, "The SEC's Administrative Policies and Financial Reporting," 8 p., and Q & A, 7 p.

1966: *Why Worry About Accounting?*
Raymond J. Chambers, "Why Worry About Accounting?," 10 p.; L. T. Moate, "The Financial Reporting Controversy" (Product Line Disclosure), 6 p.; and Robert M. Trueblood, "A Season for Head-Hunting," 7 p.; Q & A, 4 p.

1967: *Accounting is Being Challenged—Do We Have the Solution?*
Richard T. Baker, "Accounting is Being Challenged—Do We Have a Solution?," 7 p.; George P. Hitchings, "The Investment Credit Controversy," 5 p.; and Leonard Spacek, "A Report By a Critic of the Profession," 15 p.; Q & A, 5 p.

An examination of the above topics reinforces the adage "the more things change, the more they stay the same"; current controversies including accounting for leases, deferred taxes, the effects of inflation and self regulation of the profession were directly addressed during these forums some 20 years ago.

In reviewing the transcripts, one frequently observes the speakers grasping for conceptual tools with which to resolve the technical aspects of specific reporting problems. Repeatedly, panel members struggle to resolve fundamental questions concerning the nature and the function of accounting numbers. A comment from Leonard Spacek (1963) is illustrative:

> We must must decide what we are trying to do before we can do it. We have not defined the objectives of our financial statements. Why do we have a balance sheet? What is it supposed to show, and to whom? Similarly, what is the purpose of the income statement? Are we trying to show venture results? Or, are we trying to show the earning power of a company's productive facilities so that those who trade in the company's securities can arrive at a trading price? It is incredible that these objectives were not clearly determined and agreed upon long ago.

With respect to accounting issues, the transcripts portray a profession deeply concerned and fully questioning its role in a contemporary capitalist society. Particular attention is focused upon the role of financial reporting in resource allocation and on the profession's ability to sustain self regulation. These records also capture the reaction of the profession in an era that witnessed escalating litigation and severe criticism of corporate integrity. This reaction offers the reader a glimpse of the profession re-evaluating the propriety of its interaction with the investment community, the securities exchanges, the SEC and the IRS. In brief, the Hayden Stone seminars provided a public forum for the examination of traditional practices, relationships and values, the spirit of which was characteristic of the socially chaotic decade in which they took place. This is particularly evident in the presentation made in 1966 and 1967 when the APB was the target of increasing criticism (Trueblood, 1966, Baker, 1967, and Spacek, 1967).

This book would have significantly benefited from a more extensive discussion of the economic and political environment that characterized the decade of the 1960s. Since the editor was the central figure in these seminars, he appears to have been in a unique position to provide this background information. The book consists principally of uninterpreted transcripts of presentations and questions and answer sessions; unless one already possesses an understanding of the related economic, political, and reporting environment, one is left to reconstruct or to pursue elsewhere the evolutionary context of these forums. The introduction is helpful but additional background would have contributed significantly.

On the lighter side, over 80 pictures of individual speakers, entire panels and the audience are presented. Pictures of the audience provide a source of humor as they often reveal one or two audience members whose eyes are securely closed. (This finding is consistent with this writer's personal observations concerning large accounting seminars).

Schiff has successfully preserved and made available a raw, uninterpreted view of the accounting profession struggling with myriad technical and philosophical problems. This book will be especially attractive to those interested in observing the profession grapple with a variety of issues, many of which are with us today.

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DOCTORAL RESEARCH

Maureen Berry, Editor
UNIVERSITY OF ILLINOIS

The theme running through this selection of dissertations has to do with various relationships between the state and the society it serves, or between different social groups, over time and in diverse settings.

Scardellato leads the way with his sketch of rural life in the Vale of Evesham: a scenic area long renowned for its market gardens. His analysis of the events which touched and shaped the lives of the villagers spans the closing centuries of the Middle Ages. The political turbulence of those times drew most communities into conflicts and Evesham was no exception. In 1265, the mighty Simon de Montfort was defeated and killed thereafter bringing about the most important event in Parliamentary history. Not only had he called on the knights from each shire to represent the rural nobility but, for the first time, representatives were summoned from the towns and boroughs. Scardellato's concern with the peasants of England's emerging democracy contrasts with Munktell's picture of what was happening then in rural Sweden: this time, however, from the much more advantageous position of the landlords.

Some 50 years before his chronicle starts, Sweden, Norway, and Denmark had been united by Queen Margaret. An independent feudal class was already well established, Swedish cities had started to achieve some measure of autonomy, and the Hanseatic League was significantly influencing trading. Munktell outlines the trading activities of the land-based nobility, as well as the main functions of their manors, and traces the role of these estates as bases of economic power.

Four centuries later, the French establishment, which had already gone through a series of giant upheavals, was shaken again by the challenge of citizens' rights to state prerogatives. Owen takes us to the France of the *belle époque,* when, in the wake of the Franco-Prussian war and the Dreyfus case, an anti-clerical and pacifist socialist movement came to political power. With patriotism running high, nationalism and internationalism squared off over the issue of income taxation, and the private purse apparently triumphed. The critical factor, as Owen sees it, was the French government's need to achieve political alignments in order to put through policy programs. This philosophy, of course, steers Western Europe today, taking the form of the European Economic Community (EEC).

The first step in the creation of the EEC came with the formation of the European Coal and Steel Community (ECSC) in 1952. The then six members of the EEC agreed to pool their coal and steel resources and further the free movement of people and products within the community by providing a unified market for coal and steel, lifting import and export restrictions and creating a unified labor market. In its first decade, which constitutes most of the period studied by Pieters, the ECSC achieved highly successful economic results. Its iron and steel production rose by 75 percent, with other industrial production not far behind. In the 1960s, when overproduction started to become a problem, the ECSC provided resources, particularly to Belgium, to help with miner retraining and new industry development. How this new economic order helped other workers in the community, in particularly the Dutch miners, is Pieter's main research question.

We move on from the concerns of the workers to the concerns of the investor with the first of three dissertations dealing with information needs for resource allocation decisions. Korhonen draws us back to the Scandinavian community with his investigation of the Finnish stock market. Taken as a whole, the eleven papers of his dissertation paint a brighter picture of market efficiency than had generally been supposed.

Investor information also ranks high on Rees's list of priorities. He, however, is working in the public sector, looking at footnote reporting by cities. Ormsby keeps us in the financial reporting arena with a very interesting study of by-product accounting. Ferioli completes our survey by bringing us back to the individual. Just what does it take, he asks, to pass the CMA exam?

Medieval Records of Ombersley Manor (Rentals and Court Rolls, 1300-1500) (The University of British Columbia, 1983; Vol. 44/05, p. 1540-A)[1] by Gabriele Pietro Scardellato. Village life in England during the Middle Ages has attracted much scholarly attention and

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

its history has generally been pieced together from the rental records of the lords of the manors. These documents chronicle the rights and obligations of the tenants, as well as other legal transactions which provide clues about the lives of the villagers, such as fines and changes in tenancies. The wealth of detail contained in these records attests to their importance for studying various aspects of manorial life, particularly if there is interest in population trends or land distribution. However, Scardellato questions the reliability of referring to rental rolls in isolation because of their static character and the fact that they are unidimensional, that is, they only reflect the concerns of the landed gentry. He feels that, instead, groups of records should be explored. Following this argument, his dissertation attempted to reconstruct medieval English rural conditions, using an assortment of manorial records which span the fourteenth and fifteenth centuries. By examining account rolls, court, and rental records in combination, he traced the activities of a number of individuals and families living in Ombersley, a manor which belonged to the Benedictine abbey of Evesham in Worcestershire. From this examination of interrelated sources, Scardellato was able to summarize the major economic and demographic trends during that period. These included economic development as reflected in the various dues paid, as well as estimates of the manor's population, reproductive capacity, and mortality rate. Although these records were not complete, they provided ample material for a planned monograph on social stratification, as well as other aspects of Ombersley's history.

Gods, Godsagare Och Landbor 1450-1520: Studier i de senmedeltida fralsegodsens funktion (Estates, Estate Holders and Tenants 1450-1520. Studies in the Function of the Estates Belonging to the Nobility). (University of Gothenburg, Sweden, 1982; Vol. 44/01, p. 57-C) by I. M. Munktell. This study examines the role of estates owned by the nobility and landed gentry in Sweden during the period 1450-1520, concentrating on seven large areas located in Uppland, Sodermanland, Ostergotland, Smaland, and Vastergotland. Two related issues were analyzed: the estates' function as economic bases for the power of the nobility in society, and the economic significance of estate management and tenant systems on a local basis. Most of the data was drawn from accounting records. However, other main sources included relevant statutes, deeds, and surveys.

The thesis was organized into seven chapters, dealing with five main topics of interest: the economic patterns underlying new estate formation during the late Middle Ages; the size and functions of the estates; the relationships between estate owners and peasants; the pattern of trade carried out by the nobility; and investments by the nobility other than in land. Munktell found that the higher nobility acquired land either by exchanges among themselves or by purchase from the lower nobility. Estate formation during this period was concentrated in manors and locations with good communications, particular by water. In addition to land, nobles also acquired houses and interests in mills. They also invested in improvements and building maintenance.

The manors had three main functions, serving as housing, administrative centers, and large working areas. Many of these were important agricultural sites, employing on the average from 30 to 50 permanent agricultural workers. These features accorded the manors a significant amount of local importance, together with the fact that they were also centers for rent collections. Rents were collected by bailiffs, or by heads of county constabularies, either in money or in kind. In the latter case, grain and butter were the most important trading commodities. Estate management in those days can best be described as flexible, in that it was primitive in comparison with the rational management methods which prevailed in the following century.

Study of the statutes showed that the landowners attempted to bind their employees both to themselves and to the estates. However, it appeared from analyzing the surveys and the accounts that these efforts were seldom successful. Legal rights had to give way to economic considerations. As a result, the lot of the peasants probably did not deteriorate during the late Middle Ages. The estate produce was used for both local and external trading. Externally, trading was well organized with a system of permanent business contracts. As for purchases, these mostly consisted of necessities such as salt and cloth. However, luxury items, including spices and wines, were also in demand.

The Politics of Tax Reform in France, 1906-1926 (University of California, Berkeley, 1982; Vol. 43/08, p. 2761-A) by Stephen Walker Owen. Owen's interest in state-society relationships led him to explore the nature of the French Third Republic by examining the French tax reforms at the beginning of this century. The government's proposals to introduce an income tax in place of the then existing regressive tax system met with almost universal opposition. The upper classes interpreted this move as incipient socialism, threatening private property rights. Their fears were shared to some extent by the peasants and shopkeepers who, however, were more concerned about the possibility of tax assessors delving into their personal and financial affairs.

In addition to public antagonism, the tax reform movement also had to contend with the organization of political parties which necessitated accommodations and alignments on major issues. Consequently, taxation reform could not be brought forward in isolation. After the onset of World War I, the government successfully put through diluted versions of its income taxation plans in 1914 and 1917 to help finance the war effort. However, it later chose to impose a sales tax, rather than strengthen income taxation, when facing financial difficulties in 1920. Neither of these measures proved adequate to stave off the financial crisis of 1924-26.

In Owen's view, the pattern of tax reform in France during this period suggests that the French state and political system could not be neatly classified into one or the other of two contrasting models: pluralist or marxist. That is, there was neither equal competition among interest groups nor direct capitalist control. According to the historical evidence, there was no general agreement in French society about restraining social and economic innovations. There was, however, little if any disagreement about the need to defend the taxpayer against state authority. This unity worked to protect not only the wealthy but also the other main social groups. This study also highlighted the key role which political accommodations played in fiscal matters: particularly during the decade which preceded the war. Although the French state enjoyed considerable autonomy, it was curbed by the nature of French society as well as its economic environment.

Lonen en Bedrijfsresultaten bij de Nederlandse steenkolenmijnondernemingen in de Gemeenschappelijke Steenkolemarkt van de E.G.K.S. (Wages and Profits/Losses in the Dutch Coal Mines in the Common Coal Market of the European Coal and Steel Community) (Erasmus University, Rotterdam, Holland, 1981; Vol. 44/02, p. 293-C) by J. M. G. Pieters. The main purpose of this dissertation was to investigate whether working conditions and living standards for Dutch workers were improved as a result of the integration of the Dutch coal mines into the common market of the European Coal and Steel Community (ECSC).

The establishment of the ECSC constituted one of the major integration processes of the Community and European economic development. The setting up of a supranational authority over the coal and steel industry was not only a defensive move to guard against the possible domination of a basic industry by individual aggressor nations. It was also anticipated that production efficiency would be improved as a result of keener competition in larger markets. This would in turn forward the prosperity of member countries and improve the lot of workers through increases in their rewards. Whether or not this held true for Dutch workers was the main research question.

The study encompassed the time period from the early 1950s, when the 1954 statute for the coal mines went into effect, until 1965 when the Dutch government announced that coal mining was to be abandoned. The Dutch mines produced industrial and house coal with heterogeneous quantities, qualities, and markets. While demand for house coal remained relatively stable, industrial coal was gradually replaced by cheaper and cleaner fuel oil. This fuel substitution could have been one of the main factors contributing to the considerable differences in operating costs between the mines. However, it is also possible that operating cost variations could have been attributable to the differing extraction technologies. This could not be analyzed, however, due to the lack of data.

Despite the fact that improvement in workers' pay and other benefits were supposed to be linked to the common market success of the enterprise they worked for, a general levelling process took place. Working conditions, including bonuses paid on operating profits, were harmonized and equalized on a progressive basis for the workers in the various enterprises. Any efforts which the trade unions might have been able to make in demanding that working conditions be related to specific enterprises were frustrated by lack of information. Further, the unions themselves did not seem to have a clear notion of the ECSC Treaty's objectives.

In Pieters' view, the labor unions had to bear most of the blame for this situation. When the coal mine statute was being considered initially, the government apparently favored worker participation in the economic management of the mines. This would have given the unions the right to obtain whatever information they wanted. However, they turned down the joint management proposals and appeared to be satisfied with the minimal information requirements which were subsequently incorporated into the statute.

Stock Prices, Information and the Efficiency of the Finnish Stock Market: Empirical Tests (Helsingin Kauppakorkeakoulu, Finland, 1977; Vol. 44/01, p. 53-C) by A. O. Korhonen. This study is organized into three main parts and consists of eleven papers which discuss various aspects of stock market efficiency in Finland. Here, an efficient market is defined as one in which prices at any time fully reflect all available information. Eighteen companies included in the Helsinki Stock Exchange's Unitas index constituted the data base, and the period involved ran from 1960 to 1971.

The first part of the dissertation contains four papers which have to do with the information content of past prices or returns on investment. In most cases, tests of the dependence of successive price changes yielded results consistent with market efficiency. In the second part, four additional papers deal with stock price adjustments to publicly-disclosed information. Such sources included stock dividend announcements, accounting-determined income, dividend announcements, new stock offerings, mergers, and divestitures. The test results showed that the efficient market hypothesis was not supported with respect to stock dividends. In the case of accounting income, however, the findings that the market seemed to adjust in advance of official earnings announcements were consistent with the market model. No price reaction was observed in connection with dividends, and there was only a weak relationship between dividends and future earnings. Finally, while an initial overreaction to announcements of impending new stock offerings was identified, stock prices at the time of new stock issues, mergers, or divestitures apparently already reflected all the related anticipated gains.

In the closing section, three papers look at stock pricing. Tests are reported of a two-parameter asset pricing model, in addition to additional evidence as to the behavior of the beta risk parameter. The results conflict somewhat, but they seem to suggest that market efficiency showed improvement over a period of time.

User-Oriented Municipal Footnote Reporting Models: Ideal and Practical (Texas Tech University, 1982; Vol. 43/08, p. 2713-A) by David Arden Rees. Rees's inquiry into footnote reporting by local governments is divided into four main areas: the history of the topic, analysis of the footnotes in selected financial statements, solicitation of informed opinion, and development of footnote reporting models.

The author first traced the evolution of municipal financial reporting from the late nineteenth century until 1982. Perhaps surprisingly, he found that the use of footnotes is a relatively recent phenomenon. Footnoting was first mentioned in the authoritative literature in 1968, but there has been little official guidance as to the type of information which should be disclosed in this way.

In order to assess the current state of the art, as well as the degree to which practices can be considered comparable, Rees analyzed the financial statements of selected cities with populations exceeding 100,000. This review showed that there are many shortcomings in footnote reporting practices. Also, that there was little comparability in either form or content. To test these impressions, he mailed out questionnaires to certain informed user groups: academicians, auditors, bankers, municipal finance directors, and underwriters. They were asked for their opinions about the importance of selected items of information as well as the perceived adequacy of footnote disclosures of these items. Unfortunately, the responses contained little if any consensus as to the first item and no agreement on the second. However, this feedback did not go for naught. Based on the replies from the bankers and underwriters about the perceived importance of particular items of information, Rees designed a conceptual model. He divided the items into four groups, based on their perceived relative importance, and then developed footnote reporting guidelines for each group, together with application examples for similar information. Because of the differences between this conceptual approach and current authoritative requirements, Rees also designed a pragmatic model, for more immediate application, which combined certain currently required footnote reporting practices into some features of the conceptual model.

By-Product Accounting in the Extractive Industries: A History and Survey of Current Practice (University of Arkansas, 1982; Vol. 43/10, p. 3353-A) by Susan Young Ormsby. Accounting research has hitherto paid scant attention to the topic of by-products, despite their revenue-generating potential. Neither is there much guidance in the literature to assist the accounting and reporting-related decisions of companies which produce joint or by-products. Ormsby's dissertation is aimed at filling these gaps.

There are two main parts to the thesis. First, the author traced the history of accounting for by-products. Next, she conducted a mail and telephone survey, contacting 190 respondents in the following extractive industries: coal, forestry, metal, mineral, and oil and gas. Her main areas of interest had to do with the accounting methods the firms used, why these methods had been chosen, how the firms determined the feasibility of alternative processing, as well as marketing, methods for by-products, and how they determined that by-products had become major products.

Ormsby found that the existing diversity of accounting methods can be attributed to the fact that there is no clear-cut definition of a by-product. Based on the sample responses, all the various accounting methods catalogued in the historical survey were found to be currently in use, and were mainly chosen because they were simple to apply, had been recommended by members of the accounting profession, or had seemed appropriate in view of the volume of by-product sales. Generally speaking, alternate processing methods or markets had been suggested by the firms' marketing departments and were evaluated by relatively sophisticated techniques. Little support was found for the *a priori* assumption that many by-products do, in fact, become major products.

The author concluded that by-products need to be more specifically defined, and the accounting community needs increased awareness of the potential for associating revenues with by-products. More complete accounting procedures should be devised that will help decision-making by improving the recording and reporting process, as well as the tracking of information.

A Study of Selected Factors Contributing to the Acquisition of the Certificate in Management Accounting (New York University, 1983; Vol. 44/02, pp. 558-9/A) by Joseph Warren Ferioli. This study addressed itself to determining and analyzing certain factors which could have a bearing on a candidate's ability to obtain the Certificate in Management Accounting (CMA). In the United States, the CMA is recognized as one of the hallmarks of the professional management accountant. To obtain the certificate, a candidate must pass a nationally-administered five-part examination, as well as complete two years of related experience within a specified time period.

Using a table of random digits, Ferioli selected a sample of 616 candidates who passed the CMA examinations during the period 1976 through 1980. He then mailed them questionnaires, requesting information about a number of items of interest including age, education, personal feelings of prestige and satisfaction, sex, and work experience. A total of 367 usable responses were received. Descriptive statistics, frequency distributions, and Pearson r correlations constituted the bases for data analysis, and they were processed with the use of the Statistical Package for the Social Sciences (SPSS) program.

Ferioli found that women had a higher pass rate on the first attempt than men and also successfully completed previously failed parts of the examination in a shorter period of time. Generally, women who did not pass all five parts on the first attempt made up their deficiencies on the second or third try. Age seemed to play a part in the success rate for men. Those over the average age of 33 had more difficulty in passing on the first attempt and had to retake failed portions perhaps as many as five times. He also found a significant positive correlation between examination success and possession of a graduate degree in business. In addition to other results which might prove useful for those planning to take the CMA examination, the author also suggests a curriculum aimed at increasing the passing rate.

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