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Research on the Evolution of
Accounting Thought and
Accounting Practice

EDITORIAL STAFF OF THE ACCOUNTING HISTORIANS JOURNAL

OBJECTIVES

The Acccunting Historians Journal is a refereed scholarly journal published semiannually (Spring and Fall) by The Academy of Accounting Historians. It is the successor to the quarterly publication *The Accounting Historian* and is numbered as a continuation to maintain the sequence of that series which commenced in January, 1974. *The Accounting Historians Journal* does not assume responsibility for statements of fact or opinion made by its contributors.

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CONTENTS

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INTERNAL CONTROL FOR OTTOMAN FOUNDATIONS

Abstract: The objective of this paper is to analyze Ottoman *waqfs* (foundations) to determine the internal control principles followed. In order to achieve this task, extensive references have been made to an actual waqf deed, *The Waqfiyah of Ahmed Pasa.* The original copy of this document is in the Free Library of Philadelphia and it was written December 1511. It is hoped that this research would lead to further research dealing with early accounting thought and practices in the Middle East.

Introduction

Waqf (or Wakf, Turkish version *vakif*) has been one of the most important institutions in Islam from the earliest time. In *The Encyclopaedia of Islam,* waqf is defined as a "thing which while retaining its substance yields a usufruct and on which the owner has surrendered his power of disposal with the stipulation that the yield is used for permitted good purposes."[1] The word is derived from the Arabic verb *waqafa,* which means "to stop, to hold, to restrain, and to prevent." Generally it is a religious term denoting an act by which the income of any property is devoted irrevocably to the benefit of individuals or to religious or charitable purposes. As an Islamic institution it has received considerable attention in both Muslim and non-Muslim countries (as in the case of British and Muslim legislation in India and North Africa before independence).[2]

There are several sects of Islam but in this paper the focus will be on Ottoman waqfs which have been governed by Hanafi rules. Many Hanafi jurists regard waqfs as the property of Allah, from whom they had originated and to whom they finally revert by the act of the giver of the waqf.[3] According to Abu Hanifah, the founder of the sect, the legal meaning of waqf is the placing in permanent trust of specific profits of properties in such a way that the founders own-

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The author wishes to thank Daniel L. McDonald and Irene M. Gordon for their valuable criticism.

ership of assets therein shall continue, but the income and other advantages shall go to some charitable purpose.[4]

The early Ottoman waqfs (the Ottoman Empire was founded in 1300 and lasted until 1923) consisted of three general types. *Royal waqfs* were set up by sultans in newly acquired territories for religious and charitable purposes. The second type, *waqf-i sari,* were waqfs established by wealthy individuals for the welfare of the public, especially for the poor. A third group, *waqf-i adi* or ordinary waqfs, were composed of waqfs which were endowed for the benefit of the beneficiaries of the donor for purposes specified by him. This last form of waqf was extensively used to avoid the strict inheritance laws of Islam.[5]

The legal and religious aspects of waqfs in the Ottoman Empire have been the subject of considerable research. However, administrative aspects, especially from the accounting point of view, have not received the same attention and there are very few works that deal with this topic.[6] The objective of this paper is to analyze Ottoman waqfs to determine the internal control principles followed. In order to achieve this task, extensive references will be made to an actual waqf deed, (written document) *The Waqfiyah of Ahmed Pasa* in particular. This waqfiyah was selected over other available waqfiyahs because the documents were completely edited and translated and the original copy located in the Free Library of Philadelphia. It was therefore possible to conduct research using the original document.[7]

Before entering into discussion of the nature and provisions of Ahmet Pasa's (Pasa, pronounced as pasha, was a military and administrative title in Turkey) waqfiyah, it is appropriate to say a few words about the donor, whose life represents an interesting example of career advancement within the Ottoman hierarchy.

Ahmet Pasa was born as Stephan Cossovich in 1456, the youngest son of Duke Cossovich of Herzegovina. After the conquest of Bosnia in 1462, he was sent by his father as a hostage to Sultan Mehmet II with an offer to surrender half of Herzegovina in order to preserve peace. His terms were accepted, and it was agreed that the young prince was to be taken to the imperial palace in Istanbul and to be trained and educated for the service of the empire. Four years later his father died and Herzegovina became a province of the Ottoman Empire.

Very little is known about Ahmet Pasa's early life in the Turkish palace. He was converted to Islam and received the name of Ahmet and the surname of Hersekoglu (Hersekoglu means son of Herzog or Duke). He was married to Sultan Bayezid's daughter, Hondi Hatun. He served as Grand Vizier (Prime Minister) five times, as commander-in-chief of the navy three times, and commander-in-chief of the army twice. Upon his death in 1517, he was buried in Hersek (Dil), a town named after him, which is located near Yalova.[8]

Description of the Waqfiyah

The manuscript, which is edited and translated by Muhammed Ahmet Simsar, is included in the *John Frederick Lewis* collection of the Free Library of Philadelphia. It consists of thirty-four folios or sixty-eight pages. They are written in large style, seven lines per page and each page is framed by gold rulings. For purposes of analysis, the manuscript can be divided into four sections:

a. Certification and testimony of witnesses (page 1 and page 68).

b. A prologue in rhymed prose (pages 2-18).

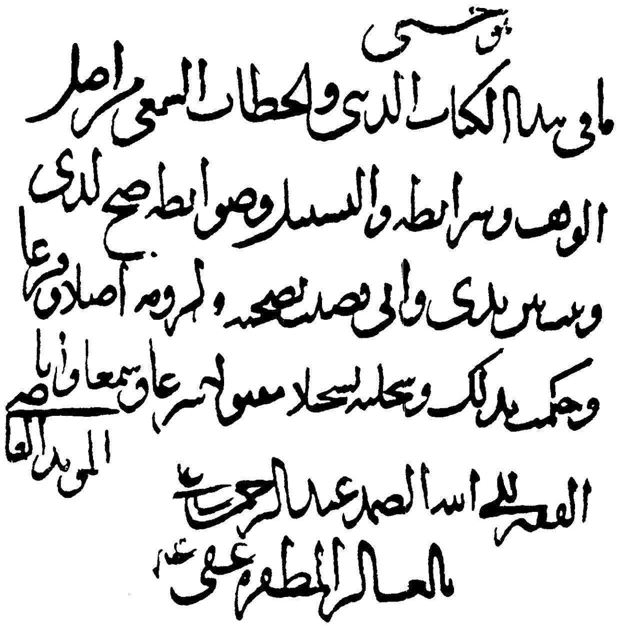
c. The inventory of estate properties that are dedicated, and the subject of the waqf (pages 19-30).

d. The donor's stipulations in regard to their administration (pages 30-67).

The absence of official seals proves beyond a doubt that this manuscript is not the official copy of Ahmet Pasa's waqfiyah or trust deed, but it seems to be the only surviving copy of the waqfiyah of Ahmet Pasa. My investigations between 1976-1979 on location have not yielded additional information about the financial administration of this trust.[9]

Although some of the original trust properties are still in use, no supporting documents have been discovered that would illustrate the actual administration of the trust. However, certain information can be obtained from the inscription above the door of the ruined mosque in Dil dedicated to Ahmet Pasa and the inscription of a ruined fountain near the mosque. Both inscriptions refer to Kemankes Ismail Aga as the trust administrator between 1773 and June 7, 1792. A third inscription shows the existence of a fountain near the mosque, and indicates that the same administrator was still in office in 1811.[10]

The first page of the waqfiyah goes as follows:



Translated as:

> . . . The contents of this religious book and [what I have learned from] oral speech in regard to the origin of the trust and its provisions, and the dedication [literally, assignment of the revenue of a property for charitable purposes] of the trust and its regulations, have been approved by me [as legal] and have declared its validity and the necessity of its execution in every detail. And I have issued my decree to that effect, and have caused its registration to be entered [in the official register] in conformity with the [written and oral] law. . . .

The judge whose certification appears on the first page is identified as the famous jurist Muayyedzadeh Abdulrahman bin Ali who had a library of seven thousand bound volumes in 1514. The last page, which gives the names of witnesses, is quite interesting from the accounting historians' viewpoint. There were four witnesses excluding the scribe of the document. Two of the witnesses namely, Pir Muhammad Pasa Al-Camali and Mawla Kiwamuldin Al-Defteri, appear to be persons with extensive accounting backgrounds. The former served as *Bas Defterdar* or Chief Treasurer at the beginning of the reign of Bayezid II and also a Grand Vizier later during the reign of Selim I. Although we have no information about the latter witness, his last name, Defteri, indicates a connection with the field of financial administration and accounting, because defter means account book and defteri can be translated as accountant scribe. The third witness, Sidi Bali, was the Secretary of the Royal Court, a position that required administrative and financial skills. Finally, the fourth witness, Sinan Pasa, also served as Grand Vizier under Selim I, the top position of the Ottoman bureaucracy.[11] This section of the waqfiyah bears the date of the end of Ramadan, 917 A.H. or December, 1511 A.D.

Following the first page, a four-page doxology in rhymed prose embodies a number of Arabic quotations from the Koran. After a lengthy eulogy of the Prophet Muhammed and the religious views on charity, the specific purpose of the donor was presented. The objective of the trust was to maintain two mosques, one in Rus (today's Kesan),[12] and the other in Dil (Hersek), and a soup-kitchen (in Dil) as religious foundations. In order to maintain these mosques and the soup-kitchen, which were complete and ready for occupancy at the time of the drafting of the waqfiyah, nine villages entirely owned by the donor were set aside in a perpetual trust. In addition to these villages a bazaar and two hundred stores in Usak, three hundred stores in Kosk, a caravansaray in Kutahya, a farm in Rus, another farm in Siyullu, a public bath and several stores in Bornova (present location of the Aegean University) and an unspecified number of houses and stores in Bursa are itemized as trust property.

Personal investigation has revealed that the mosque in Rus (Kesan) is still in good condition and is being used for prayers. The soup-kitchen and the mosque in Dil were completely destroyed in the late nineteenth century, and most of the remaining artifacts were taken to various museums in Turkey.[13]

The last section of the waqfiyah, (pages 30-67) makes stipulations with regard to selection, appointment, remuneration, responsibilities, and finally dismissal of personnel that are required for maintaining the waqf property. Financial aspects of the administration are given in clear and precise terms in order to eliminate future misinterpretations.

The stipulated maximum expenditures permissible from the income of the waqf properties are given in Table 1. This table is constructed from the information given on pages 44 through 50. The only adjustment that was made was the payment to one soup-kitchen worker who was also required to help in one of the mosques. For this reason half of his wage was included in soup-kitchen expenditures.

In this section it is also stipulated that 45 portions (dinners) would be served at the soup-kitchen. Considering the daily cost of the soup-kitchen in terms of supplies and labor, the unit cost is 1 asper per portion which is composed of 0.68 asper for supplies and 0.32 asper for labor.

The daily total of (118) aspers expenditures totals a rather large annual sum of 43,070 aspers that would be met by the revenues of the trust properties scattered all over Asia Minor and the Balkans. In addition to current expenses a provision is made for routine and major repairs and other emergency items.

The last section of the waqfiyah starts on page 30 by saying:

> . . . under the following conditions: in this manner that any part or the whole of the above mentioned bequests may not be sold to anyone, may not be given away, mortgaged, or acquired by inheritance and may not be changed or altered in any way. . . .

The subsequent pages dealing with the administration and accounting are very clear in terms of responsibilities, qualifications, reasons for dismissal, annual audit, and the management of the reserve fund. Pages 41 and 42 make direct references to the system of accounting for receipts and disbursements. The administrative organization of a typical waqf is given in Figure 1. Like the other waqfiyahs[14] Ahmet Pasa stresses the necessity of timely recording (journalizing) of transactions as they occur. A system of internal control based upon:

a. Reliable personnel
b. Separation of powers
c. Supervision
d. Responsibility
e. Routine checks (annual audits)
f. Document control
g. Physical safeguards
h. Rendering periodic reports

reminds us of the checklists for internal control given in standard cost accounting textbooks.[15] The following quotation taken from

Table 1

List of Expenditures Stipulated in Ahmet Pasa's Waqfiyah
(One Asper or Akcha = 1.152 grams of silver)

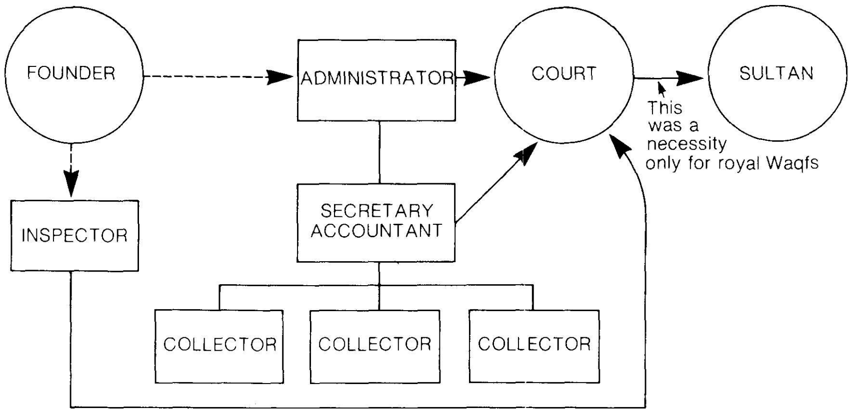
Personnel Expenditures	Daily in Aspers		
Administrator	10.00		
Inspector	10.00		
Collecting Agent of Rumelia	3.00		
Collecting Agent of Anatolia	4.00		
Total Administrative Personnel		27.00	27.00
Personnel Expenditures of the Mosque in Rus	15.00		
Personnel Expenditures of the Mosque in Dil	28.00		
Total Mosque Personnel		43.00	43.00
Including Soup-Kitchen Personnel Expenditures (one part-time)		14.50	14.50
Supplies:			
Soup-Kitchen:			
Meat	15.00		
Vegetables	2.00		
Other Supplies	7.50		
Wood for Fuel	6.00	30.50	
Mosques:			
Candles and Oil for Lighting for the Mosque in Rus	1.00		
Candles and Oil for Lighting for the Mosque in Dil	2.00	3.00	
Total Supplies			33.50
GRAND DAILY TOTAL			118.00

page 39 represents the donor's efforts to establish a system that could be maintained by checks and balances. Even the minute details are explained in clear and precise language:

> . . . And also someone, who is known for complete trustworthiness and integrity, shall become [by appointment] store-keeper, and shall store and keep a record of the stock of provisions, and shall not give to anyone, contrary to stipulations of the founder, a drop and shall not also take it himself. . . .

Figure 1

Administration of a Typical Waqf



Note: This graph is drawn by the author to show the basic relations in administration. The number of collectors, of course, changes from one waqf to another depending on the need.

Pages 41 and 42 reflect the administrative and financial background of the donor and the witnesses:

> And someone who can record all the revenues and expenditures of the trust, and who is familiar with the rules of bookkeeping and the system of accounting, reputable for trustworthiness and integrity, shall become [by appointment] secretary and shall write and make a list of all the receipts and disbursements that occur, just as they take place, and shall render an account [thereof] when required. Besides the above-mentioned secretary, two persons [by appointment] shall become collection agents of all the above-mentioned trusts, but none of these two collectors shall become [by appointment] collecting agents of the trusts situated in [European side], one of these shall record, in the form of trust [account] the income of the trusts that are included under his own controllership and turn it over, be it little or much through the secretary and

> the inspector, to the administrator [serving] at the time. . . .[16]

The offices of the administrator, *mutevelli,* and the inspector, *nezir,* were reserved by the donor for himself until his death. After his death it was stipulated that the most capable of his freed slaves was to be appointed to the office of administrator. Family control was to be maintained through inspection:

> After him the inspection shall be solely in the hands of the most upright and capable of his illustrious sons. After that in the hands of sons' sons . . . until they became extinct . . . [page 52].

In the event of the extinction of both lines, the duties of inspection and administration would pass to the State and the Governor of Rumelia who would have the power to appoint officers for these positions. But the same person could not be appointed to carry out both duties at the same time:

> . . . but the duties of administration and of inspection shall not be combined in one person, the administratorship shall be given to one person and the inspectorship also to another person . . . [page 53].

This separation of function was stressed once more in subsequent pages. On pages 59 and 60:

> . . . inspector in no way whatever interfere with the duties of the administrator, or with the income of the trusts, but . . . the inspector shall attend to the duties of inspection; and also who is the administrator shall attend to the duties of administration; neither of them shall interfere with the duties of the other.

To sum up, the above paragraphs reveal the important points of administration of Ottoman foundations. In this system the donor was required to appoint an administrator. Administrators were usually appointed from the freed slaves of the donor. Appointment of an inspector was compulsory in Ottoman waqfs, although in other Islamic countries this rule was not uniform. The inspector, as is seen in the above passages, had no authority over the collection of revenues, but was charged solely with seeing that there was no abuse or misappropriation of the revenues. In this system, courts represented the state authority in governing foundations which were exempted from taxes and the courts were charged with the smooth running of the trust for perpetuity. The judge had the power of control over a waqf and could interfere in the administration of it, even if the donor made a condition to the contrary, for the court's supervision was controlling.

Another important point in Ahmet Pasa's waqfiyah is the requirement of an annual audit and discharge of accountability through submission of a report to the court. Pages 54 and 55 state that:

> The administrator, the inspector, and the secretary [accountant] shall examine the accounts together once a year and shall submit them to the one who is Kadiasker of Rumelia [Chief Judge of the European Ottoman Empire], and he too shall report it to His Majesty [The Sultan], and things contrary to the stipulations of the founder shall not be accepted.

Finally, the question of any surplus *zayid nesne* (positive difference between revenues and stipulated expenses) is dealt with on pages 56 and 57:

> . . . after the collection of the revenue of the trust in proper way, and after their disposal according to the aforementioned conditions, whatever remains [positive difference] shall be kept [in trust] by the administrator and the collector. If the original trust properties, or the mosques, or the soup-kitchen be in need of repairs, they shall be repaired and reconditioned with the [afore-said] surplus in such a way that if the surplus be insufficient for repairs and reconditioning, all of the income of the trust shall be reserved for this purpose . . .; in short, the preservation shall be given preference over all expenses. . . .

Conclusion

Although it is a religious document, the waqfiyah of Ahmet Pasa contains very good examples of Ottoman governmental accounting requirements for the internal control of trusts. These are: careful selection of an administrator, precise job descriptions, separation of duties of administrators from the duties of inspectors, timely recording of transactions, periodic audits, and certification of documents by the courts. The system, whether used by government or by religious foundations (waqfs), was based on the establishment and maintenance of a system of checks and balances. The terminology in the waqfiyah clearly indicates the existence and use of well developed principles of accounting.

I hope that this short study will lead to further research about the role of accounting in the Ottoman Empire, which had had very close contacts with the Italian city-states since the beginning of the 14th Century.[17]

FOOTNOTES

[1]*The Encyclopaedia of Islam,* p. 1,096.

[2]Gaudefroy-Demombynes, pp. 143-147.

[3]Gaudefroy-Demombynes, p. 144.

[4]Schacht, pp. 76-77, Simsar, p. 165., and Gaudefroy-Demombynes, p. 145.

[5]Simsar, p. 165. Also there is considerable discussion about a fourth type of waqf, which is a special form of waqf-i adi and can be called cash waqfs, or usurious piety. Certain schools do not recognize waqfs based on movable property or cash. For full discussion of this controversy see Mandaville, pp. 289-308, and also Cagatay, pp. 56-68.

[6]The most important reason, particularly for Turkey, is that the Latin alphabet replaced the Arabic alphabet nearly 50 years ago and thus made it very difficult to read financial and administrative archives which were written in Arabic script or in a shorthand form called *siyakat.* For further information see Shaw, p. 18 and L. Fekete's *Die Siyaqat-Schrift in der turkischen Finanzverwaltung* (2 volumes, Budapest, 1955).

[7]The only surviving copy of the original waqfiyah is identified as Number 92 in the *John Frederick Lewis* collection of the Free Library of Philadelphia.

[8]Simsar, pp. 176-181. Tursun Beg, an accountant and historian of the Mehmet II era, refers to Ahmed Pasa ". . . later Hersek, Stjepan Vukcic of Herzegovina, sent his son to the Sultan's court as a hostage and desired to make peace. . . ." See Tursun p. 51. The difference in names is explained in *The Encyclopaedia of Islam,* pp. 340-342. Also estimates of the birth date for Ahmed Pasa range from early May 1456 to mid-July 1459 in various sources.

[9]Information sent by Mr. Kemal Tuna to Muhammed Ahmed Simsar in 1939 was checked by the author through correspondence. (See Simsar pp. 183-184). Pictures of the mosque in Kesan taken on October 14, 1979 and further information were provided by Selahaddin Kinalidere, President of the Association to Preserve and Maintain Hersekzade Ahmet Pasa Mosque. The author expresses his appreciation of the kind assistance provided by Mr. Kinalidere and Mr. Vural Yursever, Kaymakam, chief administrative officer of District of Kesan.

[10]There are two tombs in the courtyard of the mosque in Kesan. It was not possible to determine any date from the first one but it is believed that this tomb belongs to one of the daughters of Ahmet Pasa. This was never mentioned by Simsar, except in a short note about the existence of a cemetery. An interesting piece of information was revealed on investigation of the second tombstone. The person buried there was from Kocaeli, the location of the first mosque. Since the administrator in 1811 was Kemankes Ismail Aga, Kocaelili Mustafa Aga must be another descendent of the donor, Ahmet Pasa.

[11]Simsar, pp. 193-195. A simple conversion of the lunar Islamic calendar to the Gregorian calendar is given by the formula: $G = (H-3/100H) + 622$.

[12]Rus originally was a village of Kesan in European Turkey but today it is a part of the town of Kesan. Dil or Hersek is in Yalova, Province of Kocaeli in Asian Turkey.

[13]Personal correspondence. See also Simsar p. 184, and Halil Ethem, p. 293.

[14]Generally the royal waqfiyahs required involvement of the Sultan as represented in Figure 1. Although Ahmet Pasa married Hondi Hatun, the daughter of Bayezid II, his waqfiyah cannot be considered a royal waqfiyah. The inclusion of the Sultan represents an exception to the general rule which was firmly established in later centuries. There are very good examples of royal waqfiyahs. Copies of two waqfiyahs of Mehmed II, the conqueror of Istanbul, which were made by the order of his son Bayezid II, the father-in-law of Ahmet Pasa, were found in the Topkapi Museum, by its former Director, Mr. Tahsin Oz, who published facsimiles with an introduction. See Oz. Simsar suggests that the composer of the Ahmet Pasa's waqfiyah had access to the waqfiyahs of Mehmed II and used them as his model (Simsar, p .2). His conclusion is based on extensive comparisons of phrases used in this waqfiyah with the earlier waqfiyah of Mehmed II. These similarities, especially the ones on pages 52, 53, 57, and 59, support his conclusion.

[15]Horngren, p. 657.

[16]The terminology used in the document for the secretary is *katip* which is derived from the word *kitap* (book) and refers to the person who keeps books. Although in a broader context it is used as a synonym for scribe, I think that the narrower meaning, i.e., bookkeeper, was used in this quotation. Also, the English translation by Simsar of "shall write and prepare a list" falls considerably short of the intention of the original document. The donor stipulates that *katip* shall "defter idup" literally, "make a copy-book," which in accounting language refers to journalizing. These are some of the technical terms that could not be used without a good knowledge of accounting. However, the origin of the special terminology used by Ahmet Pasa needs further research.

[17]Generally the education of a scribe (secretary-accountant) required formal studies in grammar, law, theology, literature, history, political theory, the science of administration and natural sciences. This means a much broader education that may be necessary for a scribe to copy or write letters. It is no surprise that most of the higher jobs ended up in the hands of scribes who first became Defterdar, highest financial official in the Ottoman administration; then they became Grand Viziers/Prime Ministers. This leads some researchers to a generalization that Ottoman Defterdars (accountants) were able to pyramid their control of the purse strings into political power. See Itzkowitz, pp. 73-94 and Seidler p. 3 and also Snider pp. 415-419.

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THE DEVELOPMENT OF UNIVERSITY AND PROFESSIONAL ACCOUNTANCY EDUCATION IN NEW ZEALAND

Abstract: University teaching of accountancy in New Zealand is probably unique in that it has developed hand in hand with the educational requirements of the profession. Although this close relationship did much to stimulate accounting education in the early years this is not so now. In attempting to meet the requirements of the profession and develop independent programmes the universities have been forced into an uneasy compromise. Those United States institutions which have recently created Professional Schools of Accounting may well find themselves similarly placed in the near future.

The history of university teaching of accountancy in New Zealand is well worth examining because of the close links it has had with the profession. The universities have been, for some time, the major educating body of the profession. Consequently, in seeking to protect its own interests, the profession has substantially influenced the development of university accountancy education programmes with respect to the level and variety of courses offered. With this sort of development it is quite likely that the development of university accountancy education in New Zealand is quite unique.

However, the universities have not always played such a prominent role in educating the accounting profession and some attempts to bring the two even closer have failed. An example is the unsuccessful attempt to align accountancy with professions such as law and medicine in requiring, as a prerequisite to entry, a university degree. It could be that a conservative profession is unwilling to accept any influence from institutions it imagines to be liberal or even radical.

This paper traces the development of accounting education in New Zealand universities. Because many readers will not be familiar with the structure of the university education system in that country the first sections briefly describe the existing structure, then trace

The constructive comments of Professor Murray Wells, Frank L. Clarke, and John Whitta on an earlier draft are gratefully acknowledged.

its development. Also as background, some significant aspects of the history of the profession in New Zealand are detailed. Following this scene-setting the actual development of university accounting courses is examined. This forms the major element of the paper and having demonstrated that there have (at least until very recently) been close links with the profession it will be concluded that such links have inhibited progress towards flexible accounting programmes in the universities.

The Present University System

The three and a half million people of New Zealand are serviced by seven universities: University of Auckland, University of Waikato, Massey University, Victoria University of Wellington, University of Canterbury, Lincoln University College and University of Otago (subsequently referred to by their distinguishing names). Only six offer full degree programmes with a major in accounting; Lincoln is the exception. Although postgraduate studies are offered and even encouraged by the universities, the demand is primarily for undergraduate courses leading to baccalaureates. Consequently, most resources are devoted to this area. The minimum time within which first degrees may be earned is three years. What may not be generally appreciated by people outside the country is that in order to earn a Bachelor's degree with Honours a student is invited to complete a fourth year of study. This honour's year is, in effect, the first year of a postgraduate programme.

Full postgraduate facilities exist in all six institutions for study towards masterate and doctorate degrees and postgraduate diplomas all with accountancy concentrations.

Separate departments of accounting exist in Auckland, Victoria, Canterbury and Otago. Sixteen established faculty positions in accounting exist within the Department of Business Studies at Massey and a similar situation exists within the Department of Management Studies at Waikato. Facilities for extramural study exist at Massey.

Historical Background of the University

New Zealand consists of two major and several small islands. Although European settlement can be dated back to 1642 it was only in 1840 that it became a British Crown Colony. In 1852 it received a representative constitution which created a Central Parliament (or General Assembly) with two Chambers (Legislative Council and House of Representatives) and six Provincial (one Chamber)

Councils (three in each island). This Provincial system lasted until 1876 and it is in this period that the university system was established.

The most southern province (Otago) had been settled by people of predominantly Scottish origin. The wealth and population of this province had grown quickly, stimulated by the discovery of gold. With the claim that,

> The Scottish educational system is probably a more intimate part of the national life than is the case in any other country in the world.[1]

it is little wonder that there were demands in Otago for the establishment of a university.

There was opposition to this from other parts of the country. An alternative course of action was suggested—the provision of scholarships for New Zealand students for overseas study.[2] Nevertheless the Scots were not going to be "put off" and in June 1869 the University of Otago was established under a statute which empowered it to confer degrees in arts, medicine, laws and music. This was followed by the New Zealand University Act of 1870 which was to establish a New Zealand university at Dunedin (the capital of Otago) so long as the University of Otago was dissolved. This was not to be and the result was the University of Otago continued in existence but later became affiliated to the University of New Zealand. In the meantime Canterbury University College was established (1873) as part of the University of New Zealand. This was followed by the establishment in 1883 of Auckland University College and in 1893, Victoria University College. Canterbury Agricultural College at Lincoln had existed since 1881, initially as part of Canterbury University College. Massey Agricultural College at Palmerston North came into being in 1927.

The initial teaching model adopted by the University of New Zealand was that of University of London: internal lectures with external examinations. It was a situation which increasing numbers of academics found barely tolerable. They taught the courses but examining was undertaken by people ignorant of conditions in New Zealand and with little contact with the actual teachers. It is no wonder the Colleges found difficulty in attracting highly qualified overseas staff.[3]

The granting of constituent status on the Colleges in 1926 did go some way to reforming this anomalous situation. However, it was not until the devolution of the University of New Zealand in 1962 that full independence was granted the institutions. With the devolution, four autonomous degree granting universities—Auckland, Victoria, Canterbury and Otago—were established. Massey evolved from agricultural college to full university status in 1963, a major reason for the addition of other faculties being the demand created by the existence of a large number of students enrolled in the neighbouring Teachers' Training College. Waikato was created in 1974.

The Accounting Profession in New Zealand

The story of the development of the accounting profession in New Zealand up to 1960 has already been told.[4] Some features of the development are, however, worth noting. The first professional accountancy body, the Incorporated Institute of Accountants of New Zealand was incorporated in May 1894. There had been accountants practicing prior to this date but by August of that year the total membership of the Institute was 101.[5] Admission after 1896 was by examination which led to a breakaway society, The Accountants' & Auditors' Association, being established in 1898. The Association soon also conducted examinations. When two lady members qualified for admission in 1902 it became the first accountancy body in the British Commonwealth to have admitted lady members.

As with most new bodies seeking public approbation, maintaining membership and standards were the major concerns of the Institute. After attempts to unify the profession in one body for both Australia and New Zealand, it was decided to "go it alone" and in 1908 the New Zealand Society of Accountants Act gave birth to the New Zealand Society of Accountants (NZSA) (the Society) with 2,116 foundation members. It is worth noting that at the time the total population of the country was still not one million. Only 11% were qualified by examination but by 1912 nearly 300 members had forfeited membership on financial grounds. "It was 1924 before the number of examined members exceeded the non-examined, and the early 1930's before the membership again reached the total of 1909."[6]

The Society is the only official accounting body in New Zealand today. The Association was absorbed into the Society in the 1940s and the Institute amalgamated more recently. Admission is by examination and a period of approved practical experience (3-5 years). The examination subjects which must be passed are:

Accounting I
Accounting II
Economics

Quantitative Methods
Data Processing & Systems
Commercial Law Parts I-IV
Taxation, Trustee Law and Accounts
Cost and Management Accounting
Advanced Financial Accounting
Internal Control Systems, Auditing and Investigations.

Recent amendments to admission regulations require a candidate to not only pass the prescribed number of three-hour examinations—two for each subject listed except Law, Data Processing and Quantitative Methods—but to also follow a course of study, acceptable to the Society's Education Committee, in each subject for one teaching year. Furthermore, students must successfully complete all work required in that course before sitting the examinations. Self-preparation is not permitted as only courses offered by universities, technical institutes or community colleges will be approved. With a system of prerequisites for certain subjects, it is not possible to complete these examinations in less than three years' study. For example, a candidate cannot enroll in Advanced Financial Accounting without having obtained a pass in Accounting II which in turn requires a pass in Accounting I.

Without detailing the specific course prescriptions it is interesting to note the subjects of earlier examinations. The examinations of the Institute at the end of last century required a student to first pass papers in:

Practical Bookkeeping
Arithmetic
Algebra
English Composition
Geography
Dictation.

Such a pass conferred upon the candidates "student" status enabling the next step to be taken, the examinations for Associate (so long as the candidate was not less than 21 years of age):

English Composition
Arithmetic, Algebra and Euclid
Geography
Theoretical Bookkeeping
Practical Bookkeeping
Auditing
The Rights and Duties of Liquidators & Trustees.

A candidate, being not less than 25 years of age could seek status as a Fellow in which case the subjects were:

Arithmetic, Algebra and Euclid
The Theory of Bookkeeping
The Practice of Bookkeeping
Auditing
The Administration of Trust Estates & Estates in Bankruptcy
Trustee Law
Company Law
The Law Relating to Securities for Advances, Stamp & Legacy Duties, Property Rent & Income Taxes, Bills of Exchange, Promissory Notes and Cheques and Arbitration.[7]

The subjects for subsequent examinations required by the professional bodies are summarised in Table 1.

The 1906-09 examination required a candidate for Fellow (of the Institute) to pass at least five subjects with 75% and an aggregate of 475 out of 700. Candidates in the 1910 examination must have reached the age of 18 years before sitting the Intermediate sector and present the Final after 12 months of passing the Intermediate.

To be eligible to take the 1911-19 examinations a candidate must have passed certain prerequisites.[8] By this time it was the Society that was the major professional body.

Further major revisions took place in 1932 (Bookkeeping and Accounts was split into three stages), 1938, 1950, 1956, 1962 and 1978. Worth noting is the emphasis on legal subjects:

1906-09	4 subjects out of 6
1910-31	5 subjects out of 9.

This fact together with the late appearance of economics in the syllabuses leads one to speculate on the then perceived function of accountancy—at least the function of accounting training. That is, it appears to have been regarded as a purely functional-procedural task. Emphasis seems to have been placed on testing students' ability in matters of technical skill. One wonders about the extent to which economic-decision considerations were deemed worthy of concern. The subject, Economics, in fact disappeared from the requirements in 1938. It was 1957 before it reappeared.

Accounting Education at the Universities

University education in accountancy in New Zealand owes its inception to the perception of the Council of the NZSA. In 1912

Table 1

Subjects for Subsequent Examinations Required by the Professional Bodies

1906-09	1910	1911-19	1919-31
NZSA Institute Association	NZSA	NZSA	NZSA
 Bookkeeping & Accounts (2) Auditing Trustee Law Bankruptcy Law Company Law Mercantile Law	**Intermediate** Bookkeeping & Accounts (2) Auditing Trustee Law **Final** Division 1: Rights/Duties Trustees Bankruptcy Law Company Law Mercantile Law Division 2: Bookkeeping (2) Auditing	**Professional** Bookkeeping & Accounts (Elem.) (2) Mercantile Law Auditing (Elem.) Trustee Law (Elem.) Bookkeeping & Accounts (Adv.) (2) Auditing (Adv.) Trustee Law (Adv.) Bankruptcy Law Company Law	(a) **Commercial Accounts** (1) Bookkeeping & Accounts, Business Organisation & Methods (2) (2) Mercantile Law Stage 1 (3) Economics (b) **Professional Accounts** Mercantile Law Stage II Bookkeeping & Accounts (Adv.) (2) Auditing Trustee Law Bankruptcy Law Company Law

Note: Number of papers shown in parentheses where there are more than 1.

the Society gave funds to the four colleges to establish lectureships in accountancy. Two lecturers in each college (three in Canterbury) were appointed on a part-time basis. Salaries were subsidised by the Government but between 1912 and 1927 the Society had paid £5925 which with the subsidy added totalled £11,850.[9] In 1927 the Society considered the lectureships sufficiently established within the university colleges and ceased contributing.

The degree of the University of New Zealand was Bachelor of Commerce (BCom) and the professional requirements were part of the degree requirements. With minor exceptions and variations this situation has persisted up to the present time.

To study at university it was necessary to:

—pass the Matriculation examination (now called University Entrance—UE), or
—be granted admission *ad eundum statum,* or
—be granted provisional admission due to being over 21 years of age.

These were also some of the alternative prerequisites for taking the professional examination as it was natural to assume certain reciprocal arrangements (such as students transferring from one set of examinations to the other) could be agreed upon.

The University of New Zealand Calendar first shows the BCom degree being offered in 1906. There were two examinations, the subjects for which were:

(a) *First Examination*
French or German (2)
History
Physical Geography
Commercial Geography
Economics (2)
Accountancy (2)
One subject from
—Mathematics,
Physics,
Chemistry, or
Geology.

(b) *Second Examination*
Commercial Law
Statistical Method
Commercial French or German
Accountancy (2) or one of the alternatives not taken in (a)
Two subjects from
—Actuarial Mathematics,
Industrial Law,
Economic History,
Currency & Banking.

There were restrictions on when the examinations could be taken. Essentially these were that part (a) could not be passed in total before two years and part (b) only after a further year.

With the creation of the NZSA in 1908 and their subsequent part-sponsorship of accounting education, the prescription for the degree was changed to enable the professional programme to be incorporated. Subjects were divided into four groups:

Group 1	Group 2	Group 3	Group 4
1. Modern History	7. Economic History	13. Bookkeeping & Accounts (Elem.)	15. Auditing
2. Economic Geography	8. Geology	14. Mercantile Law	16. Trustees & Receivers (Elem.)
3. Economics	9. Chemistry		17. Bookkeeping & Accounts (Adv.)
4. Statistical Methods	10. Physics		18. Auditing (Adv.)
5. Currency & Banking	11. Industrial Law		19. Trustees & Receivers (Adv.)
6. French or German or Spanish	12. Actuarial Mathematics		20. Law Bankruptcy
			21. Law Joint Stock Companies

Degree candidates were required to pass all subjects in groups 1 & 3 and at least five subjects from groups 2 & 4. The term "unit" has been used a lot in New Zealand university regulations; essentially it means a subject at a given level (or stage). Its contextual derivation is not certain but it appears in the University regulations and calendars in the 1920s.

In 1926 the degree was restructured so that from 1927 passes in fourteen units were required. The concept of a major was also introduced. There were three groups:

Group 1 Compulsory Units	Group 2 Two Units from	Group 3 Five Units from One of Three (Major) Groups
Economics	Advanced Economics	Accountancy or
Economic History	Modern History	Banking or
Economic Geography	Statistical Method	Industry & Trade
French/German/Spanish	Currency & Banking	
Bookkeeping Accounts, Business Organisations & Methods	Actuarial Science	
Mercantile Law Stage I	Psychology	
Mercantile Law Stage II	An additional foreign language	

It is again interesting to speculate on reasons for some significant changes. The accountancy major subjects remained much the same—law and accountancy subjects. The fact that the degree was taught in departments with economists as heads may well account for the increasing emphasis on economics in group 1. However, banking and statistical methods had been replaced by two units of law suggesting a definite pressure group. The de-emphasising of quantitative subjects was the start of a trend which was only reversed in the late 1960s. The foreign language component was undoubtedly a hang-over from the British origins of the Dominion and existed in all degree programmes. Bookkeeping and Accountancy, it appears, had become an established subject. The emergence of psychology as an option is a significant early recognition of the importance of behavioural aspects. However, that was a short-lived fancy, for a new structure in 1941 saw a retrenchment to specifically commercial subjects. Fourteen units were still required, 8 from group 1, 6 from group 2:

Group 1	Group 2
Economics (Stage I)	Economics III
Economics (Stage II)	Bookkeeping & Accounts III
Economic Geography	Auditing
Bookkeeping & Accounts I	Cost Accounting
Bookkeeping & Accounts II	Statistical Methods
Mercantile Law I	Company Law
Mercantile Law II	Public Finance
English (or a foreign language)	International Trade
	Economics of Agriculture
	Economics of Transportation

The last change to the degree came in 1959 when the number of required units decreased to twelve. The meaning of the word unit became more clearly identifiable. With few exceptions it now meant a full academic year's study with two or three (for most advanced stages) three-hour exams. A Stage I unit had to be passed before proceeding to a Stage II course although "stage" indicated the level of intellectual maturity assumed. Substantial changes have taken place since 1962 because of the autonomous development of the universities. With respect to accountancy however, as explained below, these are changes of form or of structure rather than changes in the content of the subjects offered.

The Directions of Independent University Programmes

The most common changes to the individual programmes offered by the newly autonomous universities have been the inclusion of more courses in management information systems (and obviously computing), finance and organisation and management. The devolution of the University of New Zealand left autonomous universities —Auckland, Victoria, Canterbury and Otago. (For some reason this order, which is a north to south listing, has become traditional.) Perhaps the most significant early development was the establishment of full-time university professorships in accountancy. This implies full academic acceptance of accountancy as an independent intellectual discipline. Not only have the years since then seen the establishment of two other university "departments" of accountancy, the original departments have grown substantially.

Canterbury has (until very recently) maintained a similar overall degree structure although the required number of units has been reduced to 11 (1962), to 10 (1964) then to 9 (1966).[10] Attempts have been made to reduce the rigidity of the degree thus allowing students a greater choice of subjects—accounting and non-accounting oriented.[11] Student numbers have grown substantially as has the faculty. There are now two chairs.

Otago has also chosen to maintain the basic overall structure. Student and staff numbers have grown. Although there are still only nine units required for a degree, substantial changes have taken place in course prescriptions to maintain its contemporary relevance. As Dixon says:

> The 1960's saw considerable advances in the coverage and depth of courses in Accounting. Although the number of degree units was reduced, students are in fact faced with courses of increasing complexity.[12]

Much the same could be said of Auckland. But of the four original universities, it is Victoria which has made the most radical advances.

Unlike universities in many countries, in New Zealand the field of finance has been the prerogative of accounting departments—most are in fact departments of "accounting and finance." One of Victoria's four established chairs is held by a finance specialist. This is no doubt part of the reason for the department's strength in this field. However, even more noteworthy is that degree candidates must take, to an advanced stage (stage III), a subject other than accountancy. In effect this means that all accounting majors have two majors one of which may be music, Ancient Greek Literature or any other subject which the student is qualified to pursue. In "traditional" universities where Hatfield's houn'dog[13] is still being kicked around, a move such as this will surely encourage people to keep their feet together.

Without existing structures to constrain them, Massey and Waikato have been relatively free to develop innovative programmes. While Waikato has developed a four year management degree, Massey has opted for specialization built on a broad multi-disciplinary base. Twenty-one papers are needed to qualify for BBS (Bachelor of Business Studies). After completing a compulsory core of ten papers candidates select one of eleven different majors each with six further compulsory papers. Five elective papers complete the degree. To date about 60% of all BBS students have been accountancy majors.

The Universities and the Society

Having spent some time detailing the development of both the universities and the Society some aspects of their interaction will be quite apparent. Nevertheless, it is important to examine the process of this interaction. However, before this can be done a slight problem of methodology must be pointed out.

In tracing the history of the interaction of two parties it would seem desirable to examine source material emanating from both sides. In this instance only material from the NZSA was available. However the subsequent analysis is not one-sided, for the attitude of the universities can be inferred from their actions. This is also a quite acceptable methodology; although the present analysis covers only eighty years, in situations extending back to hundreds of years this is often the *only* method. Over-reaction to a lack of source material from a particular viewpoint should be avoided. In this analysis the problem greatly reduces as the development becomes more recent.

The question, in assessing the relations between the accounting profession in New Zealand and the universities, is: to what extent have the university accounting programmes been predetermined by Society requirements? There can be little doubt that the Society's decision in 1912 to subsidise accounting education was the initial stimulus for university accounting programmes. However, did this imply that university programmes should have been determined by the requirements of one professional body? This begs the question of the purpose of university accounting education.

A superficial examination of the subject requirements of the Society since its inception (see above, especially Table 1), reveals that at least six basic subjects have existed as a core: bookkeeping and accountancy, auditing and the four law subjects, trustee law, bankruptcy law, company law, and mercantile law. Notable absences from early syllabuses are courses on economics, cost and management accounting and any quantitative discipline.

Cost (and Management) accounting courses were developed late. A possible reason is that the Society had a strong public practice bias and other bodies, such as the New Zealand Institute of Cost Accountants, catered more for commercial specialists. Graham states that the Society felt they should take a more active role but the subject was "beyond their administrative and educational control."[14] The dropping of arithmetic, algebra and euclid from the 1906 revision left the syllabus without a quantitative subject until the late 1960s with the introduction of the subject mathematics and statistics (later to become quantitative methods).

However, considering that accounting education in the universities came, for some time, within the province of economics departments, the omission of economics from Society requirements would seem to be anomalous. That, of course, is not the only reason for questioning its omission, for as Harry Valentine, opposing its omission from the 1931 course revision, argued "no accountant could hope to discharge his duties satisfactorily without a knowledge of the economic background to his work."[15]

On the basis that following certain subjects would qualify candidates for both degree (BCom) and professional admission, it appears that from 1908-1927 the necessary subjects would have been:

Modern History	Economics
Economic Geography	Statistical Methods
Currency & Banking	French (or Substitute)
Bookkeeping & Accounts (Elem.)	Mercantile Law
	Trustee Law
Bookkeeping & Accounts (Adv.)	Trustee Law (Adv.)
	Auditing
Bankruptcy Law	Auditing (Adv.)
Company Law	

The 1926 syllabus change by the university introduced more compulsory economics. Two units had to be chosen from Group 2 (see above) which did not contain any of the subjects compulsory for the Society requirements. It did, however, contain Modern History, and Currency & Banking which previously formed part of the degree core.

The significant change, however, is the greater emphasis on economics by the university. When considered in light of the dropping of that subject by the Society in 1938 the change represents a first difference of opinion over the necessary prerequisite for a professional working in the commerce field. Nevertheless in the period to 1950 relationships were fairly harmonious. For the colleges, "the emphasis was largely on preparing candidates for the professional examinations while encouraging the better candidates to consider completing the degree too."[16]

The Society's Presidential Report for 1950 states:

> For nearly 40 years the Society's exams have been conducted by the University and the close co-operation between the Society and the University is highly valued by the Council, partly because it goes far to encourage members and students to take the BCom degree.

This link is interesting with respect to similar developments in other countries. In Britain, from which most New Zealand institutions were inherited, by 1961 there were few (if any) university accounting programmes.[17] Braddock says that,

> Australian universities have been slow to recognize accountancy courses as fit and proper subjects for inclusion in a university, and, as a result, accountancy has suffered by comparison with other professions from a lack of "academic respectability."[18]

It is also interesting to note that "between 1935 and 1944 93% of Commerce graduates were qualified accountants." The degree was "to all intents and purposes" an accountancy degree.[19] Consequently, moves were made to establish a degree in accountancy—a Bachelor of Accountancy.

Discussions were protracted and the topic continued to be debated. The correspondence section of the *Accountants' Journal* contained many "strong opinions." Not only was the change of name opposed by the University but also the "restrictive" syllabus: universities were for a more liberal rather than technical education. The proposal, after six years of discussion, was rejected by the university. However the efforts of the Society were not without reward for, although the specific degree proposal was rejected, the BCom degree was "considerably modified in harmony with the Society's submissions."[20]

Several events took place in the 1950s which were to disturb the calm between the two bodies. In 1957 the Society recognized internal examining by the Colleges for Accounting I & II and Commercial Law I & II. Accounting III and Auditing continued to be examined as a uniform national examination.

Until this time university classes in accounting subjects were, as Cowan[21] states, held before 9 A.M. and after 5 P.M. This was obviously intended to enable students to study part-time. When the Report of the Committee on New Zealand Universities (1960) (the Parry Report) opposed this practice there was a strong reaction from practitioners, as evidenced by comments in the correspondence to the editor of the *Accountants' Journal.*

Although two academics[22] supported the notion of full-time study advocated by the Parry Committee, the opposing view was voiced strongly. Anyone who studied part-time would find it difficult to think of any reasons for supporting it. One is only forced to, rather cynically, conclude that a source of "cheap labour" was to be protected.

The devolution of the University of New Zealand was seen by the Society as one of the biggest problems in maintaining adequate examination standards. While some of the diehards were all for breaking ties with the universities and "going it alone,"[23] fortunately common sense prevailed. The universities were professional educators. To develop an education programme quite separate from them would have meant the duplication of resources the economy could have ill afforded. In addition, it could well have resulted in a loss of intellectual prestige for the profession within the country and internationally. Devolution, rather than weakening the accounting education, in fact, strengthened it. The new universities created full-time professorial chairs, departments and full-time specialist faculty. The President of the Society in his 1961 Annual General Meeting address was quick to realise the possibilities and argued that the loss of uniform control was a small price to pay for the attainment of full academic status for accountancy in New Zealand universities.[24]

The solution to the problem of examination of candidates was twofold. The University Grants Committee, as a national organisation, examines for the Society's own examinations. Secondly, a system of cross-credits from university subjects to the Society's was developed. Cross-credit meant that a student who successfully completed a university course could apply to be exempted (credited with a pass in) a substantially similar course required by the Society. Based on some untestable notion that students still came to a university to qualify (solely or concurrently) for admission to the NZSA rather than to attain a degree, the universities were keen to retain these cross-credit arrangements.

In retrospect this only demonstrated the immaturity of the new university departments: their inability to take independent action. Various other reasons could be conjectured, such as the faculty themselves had been trained under the "old" system. Even the two new universities were very conscious of retaining the cross-credits. The Bachelor of Business Studies degree of Massey, as indicated, was designed to have 10 core papers, six papers in the major and five electives. By completing 18 set papers within their degree, students, after graduating, can get full cross-credit to the Society. Most accounting majors in fact do just that, thereby defeating any principle of broad-based education (which with only 5 electives is narrow enough anyway). *Ex post* evaluation of Massey's development clearly indicates its desire to obtain these cross-credit arrangements in the planning stages of its degree. With its extensive extramural programme Massey is now the second in size of the universities.

The intention of developing Massey extramural university accounting education was to facilitate the degree prerequisite for entry to the profession. Massey would have designed, examined and monitored the programme with other non-university institutions providing close contact classroom tuition. A large number of smaller cities and towns have institutions such as technical institutes and community colleges which provide accountancy education. This would have overcome a major objection to the degree prerequisite resolution—that many students were unable to attend university because they resided (for whatever reasons) outside a university centre.

The reaction of universities to recent syllabus changes by the Society however has suggested that some accounting departments are coming of age. Whereas Otago, under strong leadership, had already reacted to the restrictions imposed on any degree programme of attempting to retain the full Society cross-credit, other universities were also asserting their professional independence. Auditing, taxation and subjects such as trustee accounting are seen by Otago as purely "professional" requirements and are taught by part-time staff as a separate "professional studies" unit.[25]

Cross-credit arrangements at Victoria had changed regularly but under the present degree structure (see above) full cross-credit entails study of papers outside that required for degree status. Canterbury, which had conservatively savoured the relationship with the NZSA, has also shrugged off the yoke of restrictive subject prescriptions set by those who would rather see prepackaged economically viable units than widely educated graduates needing training in specific technical details. In fact, Canterbury had disagreed with the Society over its (university's) auditing programme in 1972. They had even been prepared to let the Society take the action it threatened—to withdraw cross-crediting arrangements for that subject. While this did not eventuate then it is in fact the present situation. It is difficult for any academic who has not been subjected to this process of cross-credit assessment to appreciate what is involved. It is, no matter from which perspective it is viewed, a slight on the independence of an academic to have his prescription vetted, his examination questions doctored and his actual marking-assessment scrutinised. This is despite the fact that it is an assumed condition of the employment contract. Who can imagine any practitioner relishing the thought of his work being checked by someone, not trained or working in the same field, to make sure it is of sufficient quality. Academics should all be sufficiently qualified before appointment—therefore why cannot their professional judgement be relied upon?

At the same time most (if not all) academics surely want to cooperate with members of the profession for which they are preparing students to enter. This preparation must be more than merely making students competent in carrying out a series of technical procedures. It must include making students aware of the wider commercial and social environment in which professional activities will be executed. Rigid course prescriptions to suit cross-credit arrangements prohibit this sort of preparation. One can only infer that the present dichotomous situation is more suited to the slightly schizoid. It is easy to agree with Sinclair when he says:

> . . . the pursuit of original work is usually due to the enthusiasm of individuals rather than to any encouragement provided by conditions in the university itself. That there have been distinguished scholars in the university, and some of them have stayed, are almost matters for surprise.[26]

Graduate Opportunities

Despite the platitudes about the intimacy and respect between university and profession[27] the values of the "great silent majority" were soon to be aired. In June 1971 members were required to vote on an amendment to the Rules which would require, for membership of the Society:

(i) An approved university degree with a major in Accounting or a degree, other than one with a major in

Accounting, supplemented by such other studies in Accounting as may be approved by Council, *and*
(ii) A Uniform Final Examination controlled by the Society, taken after the degree, *and*
(iii) Three years' approved practical experience. (taken from Postal Ballot information sent to every member, para. 1)

This was a second referendum. Four years earlier, in June 1967, the matter had arisen. In that instance the requirement was for an accounting major in the degree. The voting actually *passed* this resolution 2,573 for; 2,464 against. Because of the smallness of the majority Council, in their wisdom, had decided to hold the second referendum.[28] Voting in the second referendum reversed the earlier result: 2,272 in favour, 3,444 opposed.

Therefore, despite the fact that many professions in New Zealand have a degree prerequisite, as do many overseas accounting bodies, the NZSA still does not. This has important ramifications. For the profession there is the question of membership reciprocity with other national accounting bodies. For the universities it has meant the burden of maintaining restrictive prescriptions to continue the cross-credit arrangement described above. Postgraduate university study in accountancy has been slow to develop. In Otago postgraduate accounting courses were not offered until 1967,[29] at Canterbury in 1965,[30] at Victoria 1956 (only one paper, full programme in 1963)[31] and at Massey in 1973. At present, from courses offered, the largest programmes exist at Massey and Auckland.

Growth in the number of postgraduate studies has been slow. While there have been several masterates and doctorates awarded in commerce the majority of these has been in economics. Once again Sinclair's comments are apposite:

> The university provides a good undergraduate training; its best students help feed the great post-graduate schools abroad.[32]

The NZSA also has a "postgraduate" division—its Cost and Management division. Full cross-credit from university courses to these requirements exists at Massey and other universities. These courses are, however, not university postgraduate courses.

Conclusion

The development of university education in accounting in New Zealand is interesting as it has developed closely with the profession. Its early development exemplifies the benefits of a profession's pressure on the university system providing the motivation for such development. Because of traditional barriers to new subjects, the profession's pressure in the early years of this century was, in fact, largely responsible for accountancy's academic acceptance.

With the subject being taught by staff in economics departments the Society provided a very necessary watchdog. On the other hand, this was very much in the interests of the profession. Therefore, so long as the profession remained actively engaged in improving the standard of accounting education its influence was beneficial. This was in fact the situation until the 1950s. On the other hand, the lack of maturity of the discipline of accounting until then may not have significantly affected this relationship.

When the Society felt threatened by change in the system with the devolution of the University of New Zealand the influence worsened. The insistence on certain aspects of the prescriptions has severely restricted innovation in those prescriptions. Unfortunately, a great many of the developments in accounting that have taken place have taken some time to be incorporated into course prescriptions. Only now are the universities realising that it is to their advantage to develop academically sound programmes based on understanding of their own requirements rather than the insistence of outside bodies.

History often provides a basis for future decision making. The recurrence of identical situations is not possible. However, very often there are events which are closely parallel to past occasions. Analysis of the former can result in the problems and errors of past actions being avoided. In 1974, the American Institute of Certified Public Accountants (AICPA) appointed the Board on Standards for Programs and Schools of Professional Accounting. This Board was charged to "identify those standards that, when satisfied by a school, would justify its recognition by the accounting profession."[33] The motives of the AICPA are clear. Schools are required to meet standards of education set by the AICPA. The standards for Professional Accounting Education contained in the Final Report of the Board are admirable. They are designed to set out the need for broadly-based, well-educated accounting graduates. However, it is likely that in satisfying the profession's needs the schools are going to lose a degree of independence.

In a situation where professional "needs" are restricted to fulfilling short-run requirements, the schools will become severely constricted. The analysis of the New Zealand accounting education system above has demonstrated that this sort of situation may very well occur. It suggests a possible outcome of an overly strong influence of the profession in the education of accountants. As such it can provide an example of pitfalls to be avoided.

FOOTNOTES

[1]Thompson, p. 12.
[2]See Beaglehole, p. 20.
[3]See Burdon, pp. 87-89.
[4]See Graham, *The First Fifty Years.*
[5]Graham, *The First Fifty Years,* p. 14.
[6]Graham, *The First Fifty Years,* pp. 26, 28.
[7]Rodger, "Education and Examination," pp. 257-258.
[8]See Rodger, "Education and Examination," pp. 258-259.
[9]Reid, p. 273.
[10]Davenport, p. 13.
[11]Davenport, pp. 14, 15.
[12]Dixon, p. 11.
[13]Hatfield, p. 10.
[14]Graham, *The First Fifty Years,* pp. 124-125.
[15]Graham, *The First Fifty Years,* p. 78.
[16]Rodger, "Education for Accountancy," p. 21.
[17]Sidebotham, "The Development of Accounting Studies," p. 7.
[18]Braddock, p. 150.
[19]Graham, *The First Fifty Years,* p. 78.
[20]Graham, *The First Fifty Years,* p. 79.
[21]See Cowan, p. 395.
[22]See Sidebotham, "Education for Accountancy," pp. 324-325 and Cowan, p. 398.
[23]e.g., Stark, pp. 289-290.
[24]Pickles, p. 279.
[25]See Dixon, p. 95.
[26]Sinclair, p. 286.
[27]e.g., Graham, *The First Fifty Years* and Fippard.
[28]Anonymous Comment, *Accountants' Journal,* Vol. 46 (December 1967), p. 182.
[29]Dixon, p. 93.
[30]Davenport, p. 13.
[31]Rodger, "Education for Accountancy at Victoria University," p. 23.
[32]Sinclair, p. 286.
[33]American Institute of Certified Public Accountants, p. 1.

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4, 1926, pp. 297-298
6, 1927, pp. 66-82
8, 1929, pp. 75-89
10, 1932, pp. 264-274
14, 1936, pp. 283-284
19, 1940, pp. 11-14
21, 1942, pp. 179-180; 228-229
22, 1943, pp. 135-138
24, 1945, pp. 139-140
25, 1946, p. 23
28, 1949, pp. 135-136; 199; 253-254
38, 1959, pp. 241; 389; 399-404
40, 1961, pp. 172; 246-253; 354-361
43, 1964, p. 201
45, 1966, pp. 1; 361-362
46, 1967, pp. 182-183; 244-245
47, 1968, p. 349
49, 1970, pp. 309; 310-311
50, 1971, p. 1
56, 1977, pp. 61-70
57, 1978, p. 366.

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Calendars of the Universities provided details on prescriptions.

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THE EVOLUTION OF APB OPINION NO. 17 *ACCOUNTING FOR INTANGIBLE ASSETS;* A STUDY OF THE U.S. POSITION ON ACCOUNTING FOR GOODWILL

Abstract: The paper traces the development of the current valuation concept of goodwill from 1900 to 1970, when the present position was articulated. The paper suggests that there may be alternative bases for goodwill valuation and concludes that additional research is needed on the subject.

One of the most delicate and difficult problems in accounting today is the valuation of goodwill. The profession's current position on this subject is contained in Accounting Principles Board Opinion No. 17[1] which concludes that (a) only the cost of intangible assets, including goodwill, acquired from other enterprises or individuals should be recorded on the books, (b) the amount paid represents the proper valuation basis for the goodwill (i.e., the traditional historic cost principle is applicable), and (c) goodwill, once recorded on the books, should be amortized systematically to income over a period not to exceed forty years.

The purpose of this paper is to trace the development of this position in the United States from 1900 to 1970. Such a historical review suggests that, in the past, although we have tried and rejected various alternative concepts of goodwill valuation, there may be alternative valuation bases for goodwill which will make today's financial statements containing goodwill more meaningful.

The organization of the paper partitions the time period 1900 to 1970, into four periods, as follows:

1900 to 1932
1932 to 1944
1944 to 1957
1957 to 1970.

The reason for this partitioning is that (a) 1932 represents the date of entry of the American Institute of Accountants (now, American

Institute of Certified Public Accountants) into the accounting standard setting arena; (b) Accounting Research Bulletin No. 24[2] was issued in 1944; (c) Accounting Research Bulletin No. 48[3] was issued in 1957; and (d) Accounting Principles Board Opinion No. 17[4] was issued in 1970, reflecting the current position on the subject. These events represent major changes in viewing goodwill valuation and so make convenient punctuation marks for this review.

In each of these time periods, several views on goodwill were articulated and debated. A catalog of these sometimes opposing views, classified according to the temporal partitioning just described, results in a useful chronological taxonomy of issues for tracing the development in the United States of the present position with respect to accounting for goodwill. (See Table 1.)

Table 1

A Chronological Taxonomy of Issues Relating to Goodwill

Time Period		Issue(s)
1900-1932	1(a)	Is goodwill a personal characteristic of an owner of a business entity or can goodwill be associated with the business entity, independent of owner characteristics?
	1(b)	Does goodwill of an unincorporated entity differ from goodwill of a corporation?
	2	Is goodwill a "respectable" asset or is it something to be disposed of as quickly as possible?
	3(a)	Does goodwill diminish in value with use (i.e., is it consumed by use) or does it retain its value until some external event signals a diminution of value?
	3(b)	Is goodwill related to past "good works" or is it the result of expected superior future earnings?
1932-1944	1(a)	Should goodwill that is related to a specific asset or process be given different accounting treatment from goodwill that is not so related?
	1(b)	Do some types of goodwill have a limited useful life, while others have unlimited useful life?
	2	Is purchased goodwill different from internally generated goodwill?
	3	Is it appropriate to value goodwill in a business combination by "difference" (i.e., by computing the excess of the amount paid over the fair

Time Period		Issue(s)
		market value of the tangible and identifiable intangible assets of the acquired entity, less the liabilities of the acquired entity at date of combination)?
1944-1957	1	Is goodwill in a business combination different from (a) other purchased goodwill, and (b) internally created goodwill?
1957-1970	1	Is internally developed goodwill the same as goodwill acquired from other enterprises by purchase? (See Issue 2; 1932-1944, above.)
	2(a)	Is the fair market value of assets given in a purchase combination the best basis for valuation of the acquired entity?
	2(b)	If so, is the fair market value of shares issued in a business combination the best basis for valuation of the acquired entity?
	2(c)	Relatedly, is the fair market value of securities issued in a business combination equal to the fair value of net amounts received?
	2(d)	Is goodwill acquired in a business combination properly calculated by "difference." (See Issue 3; 1932-1944, above.)
	3	Do certain types of business combinations exist in which no recognizable goodwill exists? (See Issue 1; 1944-1957, above.)
	4(a)	If goodwill is to be recognized in the accounts, should it be amortized to income systematically, written off only when evidence of diminution of value occurs, or written off immediately against contributed capital?
	4(b)	If goodwill is to be amortized to income, over what time period should amortization occur? (See Issue 1(b); 1932-1944, above.)

Accounting Principles for Goodwill Prior to 1932

Prior to 1900, some authorities recognized the existence of a valuable characteristic of a business proprietor who enjoyed the respect and confidence of the community in which he lived and worked. Being personal in nature, this value was not considered to be transferable upon the sale of the business entity; nor was the value of the characteristic considered to be diminished by successful operation of the business entity.[5] The notion that goodwill cannot be purchased but rather must be earned by the right dealings and good moral character of the proprietor is in accord with this view.[6]

Around the beginning of the Twentieth Century, corporate goodwill as an asset of a business entity became recognized when businesses were sold as entities for amounts which exceeded the sum of the fair market values of the individual tangible assets of the entities. This excess was considered as a payment to the former proprietor(s) for the goodwill of the business and, in order to initially record the new proprietor's or partners' capital account(s) at the total amount paid, goodwill was recorded as an asset on the books of the resulting entity. It was common practice, however, to immediately write the goodwill off against the proprietor's or partners' capital accounts(s), perhaps in accordance with the earlier view that goodwill was personal in nature and therefore not really a proper business asset.[7]

Of course, the easiest solution to the problem was to insure that goodwill was never created. In the case of goodwill arising in consolidation, this could have been accomplished in one of two ways. The first was to always record the investment in a subsidiary at the net book value of the tangible assets of the subsidiary, treating the difference between this value and the appraised values of the net tangible assets of the subsidiary as additions to or reductions from existing paid-in capital (capital contributed in excess of par) on the books of the parent holding company. Montgomery recommended this treatment in the case of negative goodwill (i.e., in those cases where net book value of tangible assets acquired exceeded the fair market value of the consideration given):

> It cannot be said, however, that good accounting practice requires that the book values of tangible property be written down when holding companies pay less than book value for shares purchased. There is ample authority for crediting capital surplus in the consolidated balance sheets with the excess of book value over cost, except when good-will [*sic*] is carried at a sufficient amount to absorb the excess.[8]

Hence, according to Montgomery, negative goodwill never needed to be created in consolidation.

The second way to avoid goodwill was to always value the tangible assets acquired in a bulk purchase at the fair market value of the consideration given, thereby leaving no excess to be assigned to the intangible goodwill. This was the method recommended by Montgomery in those cases where the fair market value of the consideration given exceeded the net book value of the assets acquired.

> The payment of more than book value means that book values are understated and should be adjusted, or (as is usually the case) there has been a payment for good-will [*sic*]; in such cases the consolidated balance sheet should show the facts. It is not proper nor necessary to deduct the excess from surplus. . . . The auditor may find it necessary to insist on a readjustment in cases where a consolidated balance sheet fails to reflect the reasonable value of assets owned by a subsidiary.[9]

Two observations are in order regarding this suggested procedure. First, Montgomery did not recommend the same treatment for positive goodwill as he did for negative goodwill; i.e., he did not recommend as "proper nor necessary" a reduction of contributed capital by the excess of fair market value of consideration given over net book value of subsidiary net assets acquired. Although the text does not specifically mention the reason for being willing to create contributed capital on the one hand, but not being willing to reduce contributed capital on the other, one would surmise that the reason was an unwillingness to reduce the protection afforded creditors by equity investment of the business.

Second, Montgomery was not clear as to the basis for treatment of the excess, thereby allowing the possibility for avoiding positive goodwill by an upward revaluation of net tangible assets acquired. As a practical matter, the practice of allocating the total value of acquisition consideration to net tangible assets acquired was prevalent, particularly in the accounts of public utilities.

In the case of public companies whose purchase included a payment for goodwill, the English Companies Act prohibited the reduction of contributed capital accounts, since the amounts reported as contributed capital were to be preserved for the protection of creditors. Thus, accountants for such public companies were required to carry purchased goodwill as an asset forever, unless it was to be amortized against income.[10] The more traditional view of goodwill (e.g., that the value of goodwill did not diminish with use) dictated that the asset goodwill should not be amortized against future income.[11] An opposing view, however, suggested that the business asset goodwill was purchased in anticipation of superior future earnings and should therefore be amortized against those earnings in periods subsequent to the purchase/sale of the entity.[12]

Accounting Principles for Goodwill During the Period 1932 to 1944

By 1932, agreement had not been reached between these opposing views, and a wide variety of practices existed ranging from nonamortization to amortization against future income, paid-in capital, and/or retained earnings. Debate over this issue continued for several decades after 1932. The idea that it is desirable to "get rid" of goodwill as soon as possible prevailed as late as 1938 as follows:

> The writing off of such intangible assets as goodwill evokes scarcely any protest, even when it is recognized that substantial goodwill exists. The general distrust of goodwill and the knowledge that it has been widely used to capitalize exaggerated expectations of future earnings leave an almost universal feeling that the balance sheet looks stronger without it . . . nobody seems to regret its disappearance when accomplished by methods which fully disclose the circumstances.[13]

In 1936, the courts were called upon to deal with a problem in utility accounting that resulted in excessive rates being charged to the public. Apparently, utilities would purchase plant assets from other utilities at prices in excess of fair market values (and historic cost values) of the assets, thereby increasing the amount of their asset base, as well as increasing future depreciation write-offs, for rate-making purposes.

With regard to this practice, the court held in 1936 in *American Telephone and Telegraph Co. et. al. v. United States et. al., 299 U.S. 232,* that: (1) The proper basis for valuation of a tangible asset acquired from another utility was "original" cost, which was interpreted to mean the original cost of the asset when *first* dedicated to service by *any* utility; (2) Excess amounts over "original" cost paid by one utility to another to acquire such tangible assets had to be segregated in the records of the acquiring utility; (3) The subsequent disposition of the excess amounts was governed by the circumstances, *viz.,* (a) if the amount is considered as fictitious, it was to be written off against capital accounts immediately, (b) if the amount was considered as being directly related to a specific tangible asset, it should be amortized over the life of that specific related asset, and (c) if the amount was not fictitious and was not directly related to any specific tangible asset, the amount could either remain an asset or be amortized, either against income, to operating expenses, or against invested capital, whichever treatment appeared appropriate in the circumstances.

It is interesting that this position was taken in a court decision rather than by the Committee on Accounting Procedure, perhaps reflecting the fact that the Committee being only two years old at the time, had not yet developed the ability to deal with the issues of the day. Indeed, the accounting profession did not officially take a position until December, 1944, when Accounting Research Bulletin No. 24[14] was released.

Accounting Research Bulletin No. 24 dealt solely with purchased goodwill (i.e., the Bulletin ignored treatment of internally created goodwill) and established the proper valuation basis for purchased goodwill as cost. For this purpose, the cost of goodwill in consolidation was described as the excess of the amount paid (either the amount of cash given or the fair market value of the shares issued, as of the date of the combination) over the fair market value (usually based upon appraisal values at date of combination) of the tangible assets of the acquired entity, less the liabilities of the acquired entity at date of combination. Thus, the propriety of valuing goodwill by "difference" rather than based upon some present value calculation, discounting expected excess future earnings, was established. Further, the amount paid was taken to be the "fair market value of the assets acquired net of liabilities, or the fair market value of the consideration given, whichever is more clearly evident." The presumption was that these two values will be equal in an arm's-length exchange.

With respect to guidelines for subsequent amortization of purchased goodwill, Accounting Research Bulletin No. 24 recognized two types of goodwill—one with definitely limited useful life and another without a definitely limited useful life. The former type of intangible (referred to as a "type a" intangible) was to be amortized to income over the estimated life of the intangible, while the latter type (referred to as a "type b" intangible) was to be carried indefinitely in the accounts until some evidence of a restriction of the useful life of the asset was noted. When such a restriction was noted, it became proper to amortize the intangible against income or, if such amortization would result in distortions in income, a partial write-down to earned surplus (retained earnings) was permitted.

Finally, the pronouncement did not prohibit the initial write-off of goodwill against a contributed capital account but strongly discouraged the practice. Thus, considerable latitude was left to the accountant in deciding upon the proper disposition of a "type b" intangible.

The major criticism of Accounting Research Bulletin No. 24 was that the issue of the proper disposition of goodwill subsequent to purchase was not finally settled by the pronouncement. The latitude allowed in practice resulted in a wide diversity of practices with regard to subsequent disposition of goodwill, with only a minority of companies electing subsequent amortization against future income. This should not be entirely unexpected, since the amortization of goodwill was not allowed for income tax purposes, and election to amortize in the accounts against future income would have produced a reduction in accounting income without corresponding tax benefit.

Accounting Principles for Goodwill During the Period 1944 to 1957

Minor modifications to accounting principles for goodwill were effected in 1953 with the publication of Accounting Research Bulletin No. 43,[15] a revision and restatement of prior bulletins issued by the Committee on Accounting Procedure. Chapter V of Accounting Research Bulletin No. 43 prohibited the lump sum write-off of goodwill at acquisition against either contributed capital or retained earnings, removing the option for this treatment allowed under the previous pronouncement. Write-down subsequent to acquisition was allowed, however, when a permanent decline in value of the asset occurred and when the charging of the amount of the write-down to income would not unreasonably distort income. The amortization of a "type b" intangible (i.e., one with unlimited life) remained optional, as had been the case under Accounting Research Bulletin No. 24.[16]

The seven-year period prior to 1957 did not settle the controversy over the proper disposition of goodwill, once it was placed upon the books of a company. Removal of the option of immediate write-off to stockholders' equity effectively reduced the question as to whether or not the asset should be amortized against future income, and this issue was debated in the literature of the period.

Emerging from this controversy was disagreement over the importance of the distinction between purchased and nonpurchased goodwill, i.e., goodwill acquired by purchase in a business combination and goodwill generated by continuing good management of an already-existing business entity. One point of view held that there should be no fundamental difference in the accounting treatments of either type of goodwill and argued that it would be improper to amortize either type of goodwill in the absence of evidence of decline in the value of that goodwill, since the goodwill being consumed was being replaced by new goodwill resulting from the ongoing efforts of good management. Failure to recognize the replacement of such goodwill as income, while recognizing the wasting of purchased goodwill, would therefore be inconsistent. The opposing point of view argued that, since the recording of purchased goodwill is justifiable only in accordance with the concept of historic cost and recognition of nonpurchased goodwill would require recognition of income prior to realization, purchased and nonpurchased goodwill are conceptually different things. The logical continuation of this argument is that, since the *raison d'etre* for recognition of purchased goodwill is the historic cost principle, this cost should be amortized against the superior future earnings which were purchased. (See Emery[17] for a good synopsis of these opposing points of view.)

Accounting Principles for Goodwill During the Period 1957 to 1970

Accounting Principles Board Opinion No. 17,[18] issued simultaneously with Accounting Principles Board Opinion No. 16,[19] on *Business Combinations,* expressed the prevailing feeling of the accounting profession with respect to the above controversy. In summary, the Board recommended that the cost of intangible assets acquired from other enterprises should be recorded as assets, while the cost in internally developed, maintained, or restored intangibles not specifically identifiable to a particular process or property right should be charged to expense when incurred. For this purpose, cost should be the amount of cash paid, the fair value of noncash assets given, the present value of liabilities assumed, or the fair value of the consideration *received* for stock issued.

With respect to this latter rule in the case of assets acquired by the issuance of stock; Accounting Principles Board Opinion No. 16, paragraph 67,[20] gave tacit approval to substituting the fair value of securities issued for the fair value of assets received when the latter value is difficult to determine. The presumption is that the fair value of securities issued equals the fair value of assets received and, therefore, this alternative valuation yardstick solves the practical problem of having to rely upon subjective valuations of assets where no ready market provides reliable estimates of current market value. It is interesting that this traditional assumption has been retained in Opinion Nos. 16 and 17, in light of prior criticism of the practice, discussed below.

The Board further asserted that all recorded costs of intangible assets should be amortized over some period in the future, not to exceed forty years. In setting this rule, the Board recognized that some intangibles are identifiable with specific processes or property rights and these should be amortized over the estimated useful life of such processes or property rights. On the other hand, other intangibles, such as goodwill, may not be so specifically identifiable. They should, however, be amortized; the only question is "over how long a period of time?" The selection of a forty-year maximum appears arbitrary, intended to provide an outside time period in which to remove the cost of the asset from the books.

Accounting Research Study No. 10[21] appeared in 1968. This study (1) supports the position taken earlier by Arthur Wyatt in Accounting Research Study No. 5[22] that pooling of interests, as a practical matter, is not a valid concept; (2) therefore suggests that goodwill will be present in nearly all business combinations; (3) further suggests that all assets, including goodwill, in a business combination should be recognized at their fair value at date of combination; (4) that the fair value of goodwill in a combination should be determined "by difference," in accordance with conventional practice; (5) further, since there is no conceptual difference between externally purchased and internally created goodwill, there is no justification for amortization of purchased goodwill against future income; and (6) that purchased goodwill, due to its intangible nature and resulting instability of value through time, should be written off immediately at date of merger against contributed capital. The practical result of these recommendations is that the study supports the concept of a fair value pooling, as outlined by Wyatt.

Reaction against Accounting Research Study No. 10 was swift and decisive. The study was attacked for being too broad in scope, therefore asserting conclusions which were unsupported by the study, for recommending nonamortization of goodwill, and for expressing opposition to the concept of pooling of interests.

One criticism of the study is worthy of more than passing note—this being the observations of Homer Kripke, a nonaccountant, on the subject of initial valuation of goodwill in a business combination consummated solely by the exchange of shares. Specifically, Mr. Kripke asserts that ". . . the heart of the study is the repeated assertion that stock is just a substitute for cash, and most acquiring companies could have sold the stock issued in an acquisition for cash equal to the quoted market. The heart of my disagreement with the study is my conviction that this is not so."[23]

In addition to Accounting Research Study No. 10, many other scholarly publications suggest that accounting for goodwill, as presently defined, carries unrealistic valuation implications into the process of financial reporting. Edwards and Bell,[24] for example, suggested in 1960 that the valuation of the firm (and therefore the valuation of the goodwill of the firm) is a subjective judgment which depends upon the perception of the judge. Further, they suggest that there are several different measures of this value. In the case of a company being sold as a going concern, it must be that the market's perception of the value of the firm must exceed management's perception of the value of the firm, or the firm would not be sold. Hence, the actual price paid in the combination must fall somewhere between these two value judgments.

The conclusion from this argument must be that, since both management's and the market's perception of the value of the firm are both subjective and different in absolute amount, the difference must lie in some perceptual error in the respective measurement processes. Further, since the actual price of the exchange, whether paid in cash or in securities, is merely the result of bargaining between these two subjective values, there is no reason to presume that this measurement error is not a part of the valuation process. Any valuation of goodwill resulting from this process must therefore also be subjective and subject to measurement error.

Further insight regarding the reliability of share market prices for valuing the firm and its goodwill may be gleaned from a review of the efficient capital markets literature, resulting largely from research in the field of finance during the 1960s. Essentially, this research is directed at testing the proposition that capital markets are efficient at impounding the effects of information about firms into the security prices of those firms. One implication of this proposition is that, if the market is not efficient in impounding new information, the share price of the firm's securities may not be a reliable measurement of the value of the firm.

The efficient capital market hypothesis in the strong form is of particular interest in this study. In this form, the hypothesis holds that security prices of large, publicly traded companies will reflect not only publicly available information, but private, or "insider," information as well. Empirical evidence in support of the hypothesis in this form is less than conclusive. Thus, one must question the propriety of assuming that the share price of securities in an organized, public capital market properly reflects the value of the firm at any given point in time. One's concern over this point must increase when dealing with a smaller firm whose shares are not traded regularly in an organized market.

This traditional stance with respect to goodwill adopted by the Accounting Principles Board in 1970 (i.e., the reaffirmation of accountability for only purchased goodwill as an asset, valued on a historic cost basis, plus the requirement for amortization against future income from such assets) is indicative of the extent to which the concepts of traditional historic cost and revenue realization were accepted in 1970. This is apparent when one reviews the substantial number of comments by responsible people in opposition to this view during the period 1957 to 1970 and when one examines many of the combinations of the late 1960s in which goodwill values were generated by exchange of shares in ratios which yielded questionable goodwill values, at best.[25]

It is extremely interesting that, even in the face of this rather impressive body of evidence to the contrary, the Accounting Principles Board maintained the profession's traditional posture toward goodwill in Accounting Principles Board Opinion No. 17. Perhaps the reason for this stance is the lack of properly researched alternative views of goodwill. If so, it would appear that research is urgently needed to develop alternative valuation methods for goodwill.

FOOTNOTES

[1]Accounting Principles Board, *Intangible Assets.*

[2]Committee on Accounting Procedure, *Accounting for Intangible Assets.*

[3]Committee on Accounting Procedure, *Business Combinations.*

[4]Accounting Principles Board, *Intangible Assets.*

[5]Yang, p. 28.

[6]Esquerré, p. 245.

[7]Browne.

[8]Montgomery, p. 346.

[9]Montgomery, p. 346.

[10]Catlett and Olson, p. 38.

[11]Esquerré, p. 248.

[12]Leake, p. 87.

[13]Sanders, Hatfield and Moore, p. 14.

[14]Committee on Accounting Procedure, *Accounting for Intangible Assets.*

[15]Committee on Accounting Procedure, *Restatement and Revision of Accounting Research Bulletins.*

[16]Committee on Accounting Procedure, *Accounting for Intangible Assets.*

[17]Emery, p. 562.

[18]Accounting Principles Board, *Intangible Assets.*

[19]Accounting Principles Board, *Business Combinations.*

[20]Accounting Principles Board, *Business Combinations,* pp. 311-312.

[21]Catlett and Olson.

[22]Wyatt.

[23]Catlett and Olson, pp. 136-140.

[24]Edwards and Bell.

[25]For examples of these practices, see Abraham Briloff, *Unaccountable Accounting.* (New York: Harper and Row Publishers, Inc., 1972), and W. T. Andrews, Jr., "The Development of Accounting Principles for Business Combinations—1932-1973" (unpublished doctoral dissertation, University of North Carolina, 1976).

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THE DEVELOPMENT OF AUDITING STANDARDS IN AUSTRALIA

Abstract: The development of auditing standards in Australia occurred in three phases. The primary professional initiatives have come from the Institute of Chartered Accountants in Australia.

The first phase was marked by F. E. Trigg's presentation to the Australian Congress on Accounting in 1948. In this work Trigg relied heavily on English practice and thought.

The second phase was largely a period of inactivity so far as auditing standards were concerned because of concern for other matters of greater urgency.

The third phase was marked by the adoption of American ideas and, partly in response to continuing criticism of accounting, a commitment to the continuing review of auditing standards.

Introduction

The development of auditing standards and the formal documentation of them has involved a significant effort by the Australian accountancy profession since the early 1950's. The initial effort to formalise these standards was largely contributed by one man. The study of these developments provides an insight into the trend towards a change in the source of international influence on professional concepts and practices in Australia. Evidence is provided of a change from English to American practice as the basis of Australian developments.

Central to this study is the recognition by the profession of its responsibility to identify, codify, and document these standards for the use of its members. Auditing standards provide guidelines to assist auditors in exercising their professional judgment. In the event of litigation involving the auditor, auditing standards provide a basis

The authors are particularly grateful for detailed comments made on an earlier draft by Mr. F. E. Trigg, formerly senior partner, Price Waterhouse & Co., Sydney. The authors remain responsible for any views of interpretation contained herein.

on which to determine the appropriate level of skill and care which could reasonably have been expected of the auditor in particular situations. Auditing standards should be recognized as differing from auditing procedures. The *Statement of Auditing Standards* presently applicable in Australia provides the following definitions.

> Auditing Standards are basic principles governing the auditor's professional responsibilities which he must exercise in the course of his audit and in reporting the results thereof. These apply to every audit. Statements of Auditing Practice, issued for the guidance of members, differ from Statements of Auditing Standards. Practice Statements are concerned with the detailed work or acts which the auditor must carry out to observe the Auditing Standards. They may be varied to meet the requirements of each audit engagement. They do not extend, or limit, the application of the Standards.

The historical development of auditing standards in Australia can be regarded as having occurred in three phases. The initial phase commences with the Australian Congress on Accounting held in Sydney in 1948. The second phase is marked by a change in the relevant organisational structure in the Institute of Chartered Accountants in Australia (ICAA) in 1956. The third and final phase is marked by the issue in 1969 of a statement of auditing standards by the ICAA which differed markedly from its predecessors. It is this document which remains as the foundation of presently applicable auditing standards.

Professional Background

Before proceeding to explain how the formal statement of auditing standards came about, it is useful to explain briefly the structure of the Australian accountancy profession[2] to international readers. The Institute of Chartered Accountants in Australia[3] (ICAA) received its Royal Charter fifty years ago and has grown to about 10,000 members predominantly engaged in public practice. The ICAA members also have a near monopoly on the audit of companies whose securities are traded on the stock exchanges. The Australian Society of Accountants (ASA),[4] formed by an amalgamation of antecedent groups in 1953, now has about 40,000 members predominantly employed in industry, commerce, and government.

The Australian Accountancy Research Foundation (AARF) is jointly sponsored by the ICAA and the ASA. The move to establish the AARF can be traced on one hand to discussions at the Twelfth Annual Congress of the Australian Chartered Accountants' Research Society that led to a call for the establishment of a research division of the ICAA with a full-time research director and staff. At the same time, the ASA became particularly aware of the need to formulate guides to accounting that would overcome some of the public criticism of the accounting profession at that time and especially the criticism made by government-appointed inspectors of the major company failures of the period.[5] Discussions commenced in March 1964 between officials of the ICAA and ASA, and the AARF was formed in 1965.[6] It was the first positive attempt by the two professional bodies to cooperate on an important project.

The Early Period 1948-1955

It was to be expected that the ICAA, with a high proportion of members involved in public accountancy work, should show more concern for developing auditing standards. The early standards were developed by the ICAA without the aid of, or reference to, the ASA or its antecedents. In May 1942 the General Council of the ICAA set up a Research Co-ordination Committee. This committee "proposed the following year to launch a series of recommendations on auditing standards and procedures, the subject on which the Institute had been invited to prepare a paper for the forthcoming Australian Congress on Accounting."[7] F. E. Trigg was invited to prepare and deliver this paper which was titled "Contemporary Auditing Practice." In it he urged the professional bodies to "give unmistakable leads as to what is best (auditing) practice. . . ."[8] Trigg considered that the general principles of professional auditing practice were not generally understood in Australia; and even where they were understood, they were not, as a rule, applied in practice.[9] Trigg was a senior practitioner with sufficient experience in the profession to make a reasoned assessment of the state of accountancy and auditing in Australia. In considering his subsequent contribution to the formulation of auditing standards, it is instructive to quote his view of auditing in the forties in a recent reflection on that period.

> The approach to professional auditing in the forties was, in a large measure, unintelligent. Books were checked and ticked in a stereotyped fashion—the "tick and turn-over method" it was called. This method of course achieved little. Very few audits were planned as to their scope and character—that is to say, based on the auditor's knowl-

> edge of a company's business, how the business was organized, the state of accounting and so on, and still less on the auditor's evaluation of the company's system of internal control. In short the entire approach to professional auditing had to be changed and uplifted.[10]

Trigg's views of the state of affairs were further reinforced by the work undertaken by the Research Coordination Committee of the ICAA. The result was that the General Council of the ICAA requested Trigg to produce a statement. Trigg found little enthusiasm for the task amongst his fellow accountants, and the result was his own individual effort.

Trigg is emphatic that his purpose was "to state general principles which should have been recognised and accepted throughout the profession"[11] and that references to auditing procedures were deliberately excluded. Trigg viewed principles as governing procedures in practice while he regarded standards as defining a prescribed level of performance. His work became the direct ancestor of present day statements on auditing standards even though it was issued in 1951 by the ICAA under the title of *Recommendations on General Principles of Professional Auditing Practice.* With Trigg's dismal view of Australian practice already quoted, it is hardly surprising that he found the inspiration for his work overseas, specifically in England. The document covered the distinction between principles and detailed audit procedures; the nature of accounts and the auditors' responsibilities, particularly the duty to exercise reasonable care and skill; the general principles governing an audit and its approach; and the practical implication of general principles.[12]

In the USA the Securities and Exchange Commission had in 1939 sought the inclusion in the auditor's report of a representation as to compliance with generally accepted auditing standards.[13] By 1948 the American Institute of Certified Public Accountants (AICPA) had formally adopted ten broad requirements for audits of financial statements. These American requirements were in no way reflected in Trigg's document, which clearly did not rely on the American example. Nor did Trigg's document depend on a similar document from England, because we have been unable to trace any formal statement by the Institute of Chartered Accountants in England and Wales (ICAEW) prior to 1961.[14]

Trigg relied heavily on his personal knowledge of English practice. Trigg was known to be a vocal advocate of the view that the

English model was best in other areas, including company law, except where different conditions justified departure from the English model. This tendency to follow the English model rested on a more substantial base than any residual colonial inferiority. Trigg considered that there was a high standard of auditing in England.

> That came about for various reasons—the requirements and standard of examinations for admission to the Institute and the complex and highly organised business and financial activity in England. There the auditor's practice was much more complicated and specialised than it was in Australia. . . .[15]

Trigg's references to English practice was attuned to the attitudes of the membership of the ICAA. There was a strong English influence within the ICAA. The evolution of the ICAA was closely aided by the Institute of Chartered Accountants in England and Wales (ICAEW). In 1928, the ICAA became the first accountancy body outside the British Isles to receive a Royal Charter. This occurred with the consent of the ICAEW. The ICAA founders were very proud of this Royal Charter. In the 1940's, the founders who had sought this charter were dominant among members of the General Council, which gave final approval to pronouncements. In 1949 the president of the ICAA still referred to the ICAEW as the parent body.[16] It is hardly surprising that under this environment the ICAA placed a lot of credence in English views. There was also the very practical justification of recognising the much larger resources available to the ICAEW. "Trigg believed that the profession should draw on the more mature professional experience of the English Institute, which was an older and larger body than the Australian Institute."[17] It was a commonly shared belief that the ICAA did not have available the resources to do this work on its own. The willingness to adopt the results of the efforts of the ICAEW was demonstrated in a closely related area. The ICAA pronouncements on accounting practice were generally identical with and copied from an English equivalent. An example of this is the 1946 Australian "Recommendations on Accounting Principles," which retained the substance and, in most respects, the detail of the earlier English recommendations. In 1954 the Trigg document was revised as a result of a number of suggestions and comments made by practicing members of the ICAA.[18] The Research Coordination Committee, which had been charged with developing these standards, was terminated two years later.

The Static Period 1956-1969

Over the next few years there were technical papers written and lectures given by practitioners on the subject of auditing standards. However, the formal activities of the ICAA appear to have remained static in respect to auditing standards while other matters including accounting standards (or principles as they were then designated) received attention.

The Research Coordination Committee was replaced by the Research and Service Foundation in 1956.[19] The Committee on the Whole Future of the Accountancy Profession was charged with reviewing the ICAA role in the future development of the accountancy profession. In 1964 the General Council received a report from this committee which "proposed the creation of two committees, one on accounting principles and the other on auditing practice, both with authority to make pronouncements in the name of the Institute."[20] This recommendation was rejected however, by the General Council which decided to consolidate both functions into a single committee and call it the Accounting Principles and Auditing Practice Committee (AP&AP Committee).[21] Very little in the way of auditing pronouncements was achieved by the AP&AP Committee. It was a committee of busy men, whose primary concern was the continued development of accounting principles. This concern was spurred on by government inspectors who had been making comments critical of accounting practices and the accounting profession in reports of company failures.[22] The financial press had joined in this criticism, adding further urgency to the work. A new structure resulted from a recommendation of the Development and Planning Committee appointed by the ICAA General Council in 1966. Its recommendations followed discussions with Sir Henry Benson and C. A. Evan-Jones, the President and Secretary respectively, of the ICAEW on the ICAEW's organisational structure and committee system. The work of the AP&AP Committee and the Management Committee of the Research and Service Foundation was split between two new committees called Research and Technical, respectively. "The Technical Committee, chaired by F. E. Trigg, was asked to keep under review the standards of technical performance of members generally in the exercise of their professional skills and to prepare statements (for submission to General Council) for the guidance or assistance of members."[23] As a result the Technical Committee issued the practice statements of "Qualification of Auditors Reports," in 1967 with an amended version appearing in 1968, while "Auditors Reports on Group Accounts" appeared in 1968.

More important, however, in the tracing of the development of auditing standards, was the issue in 1969 of a revision of the "Statement on General Principles of Professional Auditing Practice." This revision was again prepared by F. E. Trigg and replaced the earlier statements issued in 1951 and amended in 1954. The revision was designated, "C1, Statement of General Principles of Professional Auditing Practice." Paragraph 17 of this statement reflected the view that professional practice may have been deficient but that there was sufficient evidence available of what auditing practice should be like. It declared, "No fundamental changes in the general principles of auditing which underlie the planning and carrying out of sound auditing procedure has occurred over the passing years." The statement however did discuss the subject of auditing standards more fully than previous statements in an attempt to provide more guidelines for the auditor in the discharge of his duties. Two further reasons were advanced why progress in the development of auditing standards was not spectacular during the 1954-69 period.

> On the one hand, the profession has perhaps relied too much on the somewhat subjective standards in the exercise of skill and judgement rather than codified standards. On the other, the sheer pressure on the resources of the profession has imposed a limit on what can be accomplished.[24]

1968 On, the Turn Towards America

In the later part of 1969, the ICAA's Development and Planning Committee was responsible for the replacement of the Research and Technical Committees with a new pair of committees known as the Accounting Principles Committee and the Professional Standards Committee.[25] This has occurred because it was concluded that the drafting and vetting of proposed pronouncements should not be divided between two committees. Other events were occurring which would shape happenings in the 1970's. During the 1960's through domestic growth and the influx of overseas capital (especially from America), commerce in Australia was becoming more complex. There was also a gradual but inevitable change in Australia's international trading relationships away from Europe and towards the Pacific basin.

> Investment in [the] three forms—ownership of shares or debentures in Australian companies by oversea companies or individuals; inter-company accounts involving assets in

> Australia of branches of oversea companies [shows this trend]. The United Kingdom's portion of these totals has fallen from about two-thirds in the 1960s to around 25% in the 'seventies. The United States accounts for about 30% and a smaller amount comes from Canada. An increasing proportion has come from Japan. Of new investments in 1974-75, the United Kingdom accounted for 12%, North America 44%, Japan 7% and others 37%. These totals do not give a complete indication of the value of oversea investment in Australian companies, partly because they do not make full allowance for accumulation of reserves, which represent increasing oversea investment.[26]

The development of the accounting profession itself during this period was marked by the establishment of formal links between existing local firms and the big international accounting firms most of which, regardless of their historical origins, are perceived to be directed principally from their American offices. At the same time the composition of the membership of the ICAA's General Council was changing. "The new General Councillors brought with them a conviction that the ICAA should play a more central and active role in the advancement of professional standards."[27] The extent to which these changes have led to a reorientation of influence in the accounting profession must remain subjective. The American influence has certainly been pervasive in the academic world. Developments in accounting standards in the seventies have certainly reflected increasing American influence. The adoption of the all inclusive income statement and the interperiod allocation of corporate taxation are two prime examples.

There was also some limited evidence of a growing concern about auditing standards among the wider membership of the accountancy profession. A paper by L. G. Faulk and B. M. Robertson presented to the Twelfth Annual Congress of the Australian Chartered Accountants' Research Society (New South Wales Division)[28] and a subsequent series of articles in the *Chartered Accountant in Australia* appears to have stimulated active discussion and directed attention at the form of the AICPA *Statement on Auditing Standards.* The discussion groups at this Congress concluded it was desirable for the ICAA to pronounce auditing standards as minimum standards of performance and for these to be subject to regular review. Furthermore, as noted in outlining the origins of the Australian Accountancy Research Foundation (AARF), there was a call for a full-time research organisation. It took some time for an effective response to this call, but by 1970 the ICAA and the ASA had agreed to channel all new projects covering accounting and auditing standards through the AARF;[29] and in 1971, with the appointment of Kenley as Research Director, the AARF became fully operational.[30]

Yet another force towards encouraging a more positive attitude to auditing standards was the Pacific Acceptance case in 1970.[31] In this case, Justice Moffit went further than in previous cases in his dicta on the weight to be given to professionally promulgated auditing standards. Compliance with professional standards was considered by the court to be the satisfaction of minimum requirements rather than the performance of best practice. "Further, if professional standards are not appropriate to modern conditions, then they are neither persuasive nor conclusive evidence of reasonable skill and care; they are no defence at all."[32] Therefore, relevance is the criterion upon which auditing standards will be judged. Once the profession has established its auditing standards, it must continually update them over time to ensure that they remain relevant to modern conditions. This updating procedure must not be a once-and-for-all act but part of a continual process so as to ensure the best possible service to clients. Here, more than anywhere else, it was emphasized that the professional bodies might not be the sole source of auditing standards. This is especially so if those standards promulgated by the profession do not satisfy the relevance criterion. No longer will the courts allow the profession to be judged on its own standards. The court expects standards to conform to the expectations of the reasonable man, not the auditor. The court in this case stated that the auditor may be held to a standard higher than currently demanded by his profession if those standards are not relevant to today's needs. The judge then went on to say, "It follows, if the audit profession or most of them fail to adopt some step which despite their practice was reasonably required of them, such failure does not cease to be a breach of duty because all or most of them did the same."[33] "The presumption that the requirements of the profession and the law are compatible has been rudely shattered"[34] by the Pacific Acceptance Corporation case. This is not the place to discuss the details of the principles of negligence as dealt with in the case. Its relevance lies in

> the fear engendered in practitioners' minds that the present time is good hunting for many people who think they have a case against the auditor for astronomical damages, as compensation for what they regard, rightly or wrongly, as a breach of duty.[35]

The combination of changing attitudes and the events outlined above can be seen as the motivation behind the issue of an amended statement of auditing standards known as CS.1 in November 1974.[36] What was now presented was an adaption of the AICPA statement, and it was claimed the standards "do not represent a significant departure from those which would be generally accepted by the profession in Australia."[37] The turn away from England to the USA was complete.

Continuing Review

The Australian Audit Standards Committee (AASC) was set up under the aegis of the AARF for the continual review of these standards. This was done in an attempt to satisfy the relevance criterion demanded of auditing standards by Justice Moffit in Pacific Acceptance. The AASC held its first meeting in November 1974. It was decided at this meeting that the most urgent task facing the committee was the review of CS.1. If this review suggested change was necessary in order to keep the standards relevant to modern conditions, a revised document would be issued as a joint statement by both professional bodies. "Work on this review was therefore put in hand as a staff project, and for part of 1976 members of the AASC spent many hours considering possible refinements and/or amendments. In this work a great deal of attention was of course given to recent pronouncements of overseas bodies in the same area."[38] The result was the issue, in April 1976, of the first jointly prepared Exposure Draft on auditing standards.[39] It was issued to all members of the ICAA and ASA by inclusion in the official journals of the respective organisations. Copies were also sent to academics. Comments, criticisms and suggestions were requested by May 31, 1976. "There were thirty-eight letters of comment on the Exposure Draft, and the breakdown of the sources from which these letters were received is as follows:[40]

Public Accountancy Firms	13
Academics	8
Individuals and/or Groups	15
Others	2
	38

The lack of response registered here is mitigated to a certain extent, when it is realized that 13 of the replies were received from larger firms, and thus present the view of the membership of those firms. Possibly this lack of response indicated confidence in the proposed standard rather than lack of interest. The suggestions mainly concerned themselves with the specific terminology of the Statement. Other suggestions were designed to tighten the principle governing the proper conduct of an audit. A study of them by a sub-committee of the AASC resulted in two principal changes: (a) "To emphasize the responsibility of an auditor to conduct an audit and to report on the 'accounts' as defined in S161 and S5 of the Companies Act," [and] (b) "a significant change in the order and wording of the reporting standards."[41] The result of all this work was CS1/351 "Statement of Auditing Standards" issued in 1977. Like Statement CS1, CS1/351 was basically an Australian adaption of the AICPA Statement.

Recent Developments 1978

A formal joint statement has been issued in May 1978 outlining changes to the organisation of the AARF by the Presidents of the ICAA and ASA.[42] This reorganisation has been undertaken to speed up the flow of accounting and auditing standards. In this way the AARF will be strengthened and streamlined through the appointment of a high-level Foundation Executive Committee (FEC). This new FEC will progressively assume the functions now being exercised by the Accounting Research, Accounting Standards, Accounting Standards Review, Auditing Standards, Taxation, and Legislation Review Committees of the joint accounting bodies. At its first meeting office bearers were appointed, comprising five chartered accountants representing the ICAA and five members of the ASA from industry and government. Important changes also were instituted in the organisation of the work in hand with an emphasis on the use of consultants working on a contract basis instead of various functional committees preparing the various stages of documentation of standards. It is hoped that these new procedures will allow a greater number of projects to be developed at any one time. It is also envisaged that they will widen the range and sources of advice to the profession. The AARF will in future issue exposure drafts in its own name. However, the endorsement of proposed standards will remain the responsibility of the Joint Standing Committee, comprising the Executive Committees of the ICAA and ASA, and the publication of the standards will continue to be in the names of the individual accounting bodies acting together. It is to be expected that the future will not be marked by long periods of inactivity as in the past and that the AARF will concern itself with auditing standards.

Conclusion

In Australia there has been a continual improvement in auditing practice as the profession has become more aware of requirements for effective auditing practice. The development of formal statements of auditing standards has likewise proceeded throughout most of the past thirty years. The voice crying in the wilderness of the forties has led to professional auditing practice improvement with the increasing acceptance of the content of the formal statements issued by the accounting profession.

It is our opinion, based on this evidence, that English views in this area influenced the early pronouncements of the Australian profession on auditing standards. However, in more recent times the Australian profession has increasingly looked to the United States for guidance. This trend is expected to continue into the foreseeable future. The Pacific Acceptance case stung the profession out of its lethargy concerning the development of auditing standards and into decisive action. Since the Pacific Acceptance case, the profession has committed itself to the continual development of auditing standards. The stimulus of public censure in the future, however, will not be necessary to force the profession to promulgate relevant auditing standards. This commitment has been made because the profession realizes the necessity to formalise auditing standards. The Foundation Executive Committee set up by the AARF is evidence of this commitment and represents the means by which auditing standards can be effectively established. Its system of contractors, committees, and exposure drafts allows the scope for a review to be open to the input of many diverse sources.

There is no evidence to show that the standards formulated in CS1/351 have been derived from a systematic body of knowledge about the audit function. The events which have been described concern the documentation of commonly used auditing practices. It is apparent that these standards have their origins in the practicing arm of the profession. Thus it should be remembered by all auditors that "the issue of numerous auditing standard pronouncements does not presage the abandonment of the prime test of skill and judgement which has been the cornerstone of the auditing profession since its foundation."[43] These statements should act not as set rules but as a guide to auditors in performing their attest function.

It will be of interest to review future developments in due course to confirm whether the change in orientation of auditing standards presented above continues to be reflected in those developments.

FOOTNOTES

[1]Institute of Chartered Accountants and Australian Society, (1977).
[2]Gibson, p. 196.
[3]Marshall.
[4]Australian Society, (1962).
[5]Australian Society, (1966).
[6]Zeff, p. 43.
[7]Zeff, p. 5.
[8]Trigg, (1949), par. 123.
[9]Trigg, (1979).
[10]Trigg, (1979).
[11]Trigg, (1979).
[12]Robertson, p. 4.
[13]American Institute, p. 204 and Robertson, p. 4.
[14]Institute of Chartered Accountants in England and Wales, (1961).
[15]Trigg, (1979).
[16]Way.
[17]Zeff, p. 9.
[18]Institute of Chartered Accountants, (1954).
[19]Institute of Chartered Accountants, (1955).
[20]Zeff, p. 11.
[21]Institute of Chartered Accountants, (1964).
[22]Australian Society, (1966).
[23]Zeff, p. 13.
[24]Institute of Chartered Accountants, (December, 1974).
[25]Institute of Chartered Accountants, (January, 1970), (March, 1970), (July, 1971).
[26]Australia and New Zealand Banking Group.
[27]Zeff, p. 12.
[28]Faulks and Robertson.
[29]Australian Accountancy Research Foundation, p. 189.
[30]Institute of Chartered Accountants, (March, 1971).
[31]Pacific Acceptance v Forsyth.
[32]Gilling, p. 105.
[33]Quoted by Gilling, p. 105.
[34]Gilling, p. 105.
[35]Trigg, (1979).
[36]Institute of Chartered Accountants, (1974).
[37]Robertson, p. 4.
[38]Kenley, p. 31.
[39]Institute of Chartered Accountants and Australian Society, (1976).
[40]Australian Audit Standards Committee, p. 28.
[41]Australian Audit Standards Committee, p. 29.
[42]Institute of Chartered Accountants and Australian Society, (1978).
[43]Institute of Chartered Accountants, (December, 1974).

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THE ACCOUNTING RECORDS OF THE EAST INDIA COMPANY

Abstract: The rather extensive and complex collection of accounting and related materials of the East India Company may be viewed in four distinct periods. Paradoxically, the first period (1600-1663) is marked by an absence of account books. The second period (1664-1697), however, provides us with a near-complete set of books. The maintenance of three separate sets of accounting records distinguishes the third period (1698-1712) when three East India Companies (London, English, United) were operating simultaneously. From around 1712 until final liquidation of the Company in 1858—fourth and last archival period—record keeping assumed certain features of modern accounting.

Some 8,600 volumes of accounting records which span a period of nearly three centuries (1664-1955) are in the charge of the India Office Library and Records in London. They constitute the archives of the East India Company (1664-1858) and its successor, the India Office (1858-1955). These records are designated L/AG, *Accountant General.*

This rather extensive collection covers a wide variety of accounting and related subjects, ranging from ledgers and journals to ready reckoners, registers of stock transfers, bullion records, actuarial materials, income tax papers, private trade journals, and accounts compiled for Parliament and the Treasury. Altogether there are fifty-two major, self-contained subject areas each of which is divided into several subsections. From an archival standpoint, this collection of materials is very complex; efforts, however, are being made to improve its present arrangement.*

The accounting records of the East India Company may be viewed in four distinct periods. Even though there are no surviving

This report is a by-product of a research project made possible by a grant from the American Philosophical Society.

* Mr. S. J. McNally, who was for many years employed in the Accountant General's Department of the India Office, has prepared a guide to this collection. The guide is now being edited and may in part be revised by Mrs. Sally Hofmann, formerly assistant keeper at the India Office Records.

account books—journals, ledgers, etc.—prior to 1664, it is useful to recognize the first sixty-three years of the Company (1600-1663) as a period in its own right. In another archival group designated H, *Home Miscellaneous Series,* the original ledger index of the Third Joint Stock (1631-1642) has been preserved. It contains the titles of approximately eight hundred accounts. Also in this series are several statements of account which throw light on the trade activities of the period. Another auxiliary source of information is the archival group of materials designated B, *Minutes etc. of the Court of Directors and of the Court of Proprietors.*

The second archival period covers the years 1664-1697. The main books of the Company's home accounts are almost complete. During this and subsequent periods, the accounts of commercial transactions originating in India were sent home and the figures taken into the home journals, ledgers, and eventually reflected in the profit and loss accounts. It is relatively easy to trace a ledger entry to its relevant journal, but not the other way around. Each ledger has a complete alphabetical index. The accounts of the Company were maintained on the double-entry system. The ledgers and journals—each of which is approximately 14″ wide, 20″ long, 4-6″ high, and weighs 30-38 lbs.—bear the Company's coat of arms on the covers.

In the last two decades of the 17th century, efforts were made by a group of merchants to promote a rival joint stock company. By the end of 1698, this new body of merchants was granted a charter of incorporation and became known as the English East India Company. Negotiations between the old (London) and the new (English) companies for combination led to the formation of the United East India Company in 1702. From 1698 until 1712 or 1713 there were, in fact, three East India Companies (London, English, United) in existence. In light of this historical situation, it is useful to regard these fourteen or fifteen years as a third archival period. The accounting records for this period are fairly complete. One United Company ledger for the years 1703-1705 appears to be lost. The London Company's ledgers of this period contain many unbalanced accounts and show some *ad hoc* adjustments with the English Company. The simultaneous operation of three East India Companies during this period created some complicated financial accounting problems.

From around 1712 to the end of the Company's trading activities in 1834 and its subsequent liquidation (1858) may well constitute the fourth and last archival period. As in earlier periods, during this period, too, each general ledger was served by two journals: cash and commerce. In the 18th century the use of subsidiary books became increasingly popular thereby eliminating the old practice of keeping the ledgers and journals in detail. Also during this period it became customary to balance the accounts annually. Annual balances of ledger accounts are first shown in 1756. In the past, the accounts were balanced at the end of each ledger book containing entries for several years. Financial statements were not prepared at regular intervals; rather, whenever deemed necessary.

The archive of the East India Company is a rich source for investigation. It is hoped that the foregoing periodization of the accounting records will be of some assistance to those interested in studying them. While such study may be directed toward any one of several possible objectives, the fundamental challenge seems to lie in the clarification of those principles and concepts which generated the accounting information.

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NOTE ON THE FIRST RECORDED AUDIT IN THE BIBLE

Abstract: According to an early commentary on the Bible, Joseph is the first auditor of accounting records in the Bible.

According to one of the earliest commentaries on the Bible (Onkelos, circa 2nd century C.E.), an audit of accounting records is mentioned in the story of Joseph.

Joseph was the manager of Potifar's household. All of the household assets were entrusted to Joseph (Genesis 39:4, 8) and all transactions of the household were under his authority (Genesis 39:6, 9).

All indications point to the fact that Potifar's household was the equivalent of an ancient estate. While the size of his household is not explicitly discussed in the Bible, it may be inferred from a number of passages. Potifar was an "officer of Pharaoh's, the captain of the guard" (Genesis 39:1) who even had the power to jail Joseph (Genesis 39:20). There are multiple references to the men—presumably slaves—of the household (Genesis 39:11, 14). Joseph's rise to power as manager of the household is gradual (Genesis 39:2, 4, 6, 8-9). The clear implication is that the estate had an hierarchical structure.

Since Potifar's estate was a large enterprise, Joseph presumably delegated authority to subordinates. As manager, he would have to periodically check the records of his subordinates.

The Bible refers to Joseph's work once.

> And it came to pass on a certain day, when he [Joseph] went into the house to do his work, and there was none of the men of the house there within (Genesis 39:11).

The Bible does not specify the nature of Joseph's work. Onkelos, however, explains the words "his work" as "לְמִבְדַק בְּכִתְבֵי חוּשְׁבְּנֵיה," which can literally be translated "to check the records of account."

Thus, according to Onkelos, Joseph is the first auditor of accounting records in the Bible.

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BOOK REVIEWS

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Alfred D. Chandler, Jr., Editor, *Managerial Innovation at General Motors* (New York: Arno Press, 1979, $14.00).

Reviewed by
Daniel A. Wren
University of Oklahoma

The title would suggest that we will find some managerial innovations by General Motors—yet the editor leaves it to the reader to determine what these might be. The editor offers no explanation of why these eight items (six reprinted articles and two reprinted speeches from the period 1923-1927) were selected, how they might fit a theme, or just what the "innovation" might have been. For those who are familiar with Professor Chandler's writings, the rationale can be found fairly readily—but if Chandler has not been on your reading list, do not start with this collection. Chandler's work has emphasized the growth of enterprise and how managerial responses are made to this growth. In this collection, his selection is the writings of top G.M. executives (all Vice-Presidents with two exceptions) to show how this enterprise responded to growth.

Under William C. Durant, General Motors had been an unwieldly union of motor car and parts producers. As G.M. faced bankruptcy, it was Du Pont money and Pierre S. du Pont as Chief Executive who saved the Durant creation in 1920. The Du Pont Company, under Pierre S. du Pont, had already pioneered some of the organizational and managerial techniques which would be used at G.M. Du Pont's Treasurer, Donaldson Brown (who contributed four of the eight articles in this book) came to G.M., and together with Alfred P. Sloan, Jr., helped create the G.M. organization with centralized policy and control and decentralized administration and operations.

The managerial innovations at G.M. were those steps taken to bring a rational system of policies, plans, structure, and controls to the organization, something it lacked under previous management.

For example, G.M.'s "Consolidated Cash" policy and procedure was instituted to reduce idle working capital (previously held in various division offices throughout the country) by receiving and distributing all funds centrally through the Corporate Treasurer. Forecasts of activities were translated into budgets for both planning and controlling uses. G.M.'s Comptroller was given a major role in analyzing past trends, studying present conditions, and making the forecast as "a combination of business prophet and historian." Other selections on pricing policy, inventory control, and budgets are offered to show the G.M. administrative mechanisms for achieving centralized control. Of particular interest is Albert Bradley's (Brown's Assistant) discussion of how G.M. balanced production, inventory, and sales through a dealer reporting system. Readers who are familiar with Durant's failings will recall that he had trouble balancing production levels and dealers' sales. Under new management, G.M. developed a dealer's report, submitted every ten days, of sales, orders, and inventory on hand; this was compared to the original sales forecast, and production adjustments were made as necessary.

Chandler's theme develops as that of how G.M.'s top management rationalized its organization and management to capitalize on what Billy Durant had built but could not manage. If G.M. had not developed the ideas and techniques we see in these readings, it is highly likely that the outcome of the automobile industry would have been quite different. General Motors did not achieve its successes until after these "managerial innovations" were made.

Alfred D. Chandler, Jr., Editor, *Pioneers in Modern Factory Management* (New York: Arno Press, 1979, $16.00).

Reviewed by
Michael F. Pohlen
University of Delaware

This brief work is a selection of monographs taken from the *Transactions of the American Society of Mechanical Engineers* from the period 1885-1895. While the selections carry such heady titles as "The Engineer as an Economist" and "Gain-Sharing," the six pieces would probably be classified under "cost accounting and cost improvement" in a contemporary book of essays.

The book is another of Alfred D. Chandler's many contributions to the history of management in its broadest context and serves as a useful counter-reminder to those of us who are sometimes taken up with the development and refinement of our professional skills and theories.

The authors whose work Chandler has selected would be included under almost anyone's list of Who's Who in the development of management thought around the turn of the century: Henry R. Towne, Oberlin Smith, Henry Metcalf, Frederick A. Halsey and Frederick W. Taylor (in order of their appearance in the book).

The decade covered by the six pieces traces the development of certain managerial insights into the recording and use of cost information and, perhaps even more important, the development of a written literature in the field. In the opening article, "The Engineer as an Economist," Henry R. Towne calls for the creation of a new *economic section* within the American Society of Mechanical Engineers, citing the widespread interest in economic issues and the obvious need for a thorough airing of them in the profession. It is interesting to note that a later written discussion of Towne's suggestion raises the danger of isolating those interested in such issues from the mainstream of the organization.

Two articles on cost accounting deal with the problems of valuation of physical equipment and the determination of real labor costs. One gets the distinct impression that the problems are still with us in much the same form, despite almost 100 years of analysis, investigation, and countless hours and words devoted to the subjects.

The three final articles on wage payment provide another note on how far we have yet to go in the management of the labor force. Three positions on how labor productivity can be improved are presented—profit sharing, payment of a premium when productivity exceeds a set rate, and a true piece-rate system.

At first reading, this reviewer questioned whether the lengthy and sometimes tedious discussion by a panel which followed several of the articles was necessary or whether the substitution of one or two more articles would have been better. Any number of names, e.g., Harrington Emerson, come to mind as additional contributors from the era. Upon reflection, however, Chandler's tactic was well chosen. But for slight differences in vocabulary and grammatical style, the discussion might well be taking place in a 1981 meeting of management professionals concerned with costs.

In summary, the book places the reader into a simpler time, a time when managers, engineers and accountants talked to each other—and were often the same people. Perhaps that is Chandler's real message.

Nicholas Dopuch and Lawrence Revsine, Editors, *Accounting Research 1960-1970: A Critical Evaluation* (Urbana, Ill.: Center for International Education and Research in Accounting, 1973, pp. xi, 194, $3.00).

Reviewed by
J. Edward Ketz
University of Connecticut

This publication contains the proceedings of a conference on accounting research held at the University of Illinois at Urbana-Champaign on April 5 and 6, 1971. The purpose of the conference was to provide a forum for a critical discussion of developments in accounting theory up to 1970. The conference had four sessions in which each session had a paper, two critiques of the paper, and short discussions. The sessions were: *a priori* research in financial accounting; *a priori* research in management accounting; behavioral research in accounting; and empirical research in accounting.

Carl Nelson's "*A Priori* Research in Accounting" is restricted to an evaluation of theories on income determination and asset valuation. By examining the works of Canning, Paton and Littleton, MacNeal, Alexander, Sprouse and Moonitz, Edwards and Bell, Chambers, and Sterling, Nelson censures most of the work in current value accounting. His criticism is based on their ignoring the valuation of intangible assets, the difficulty of implementing the proposals, the belief that replacement cost is not value, and the inconsistent treatment of liabilities. Ijiri essentially agrees with him and calls for more work in measurement theory and in studying the contents of financial reports. In his commentary, Larson chastises Nelson for ignoring linkages with other aspects of accounting. While Nelson's paper is an interesting evaluation of current value accounting, I felt that it would have been more promising, given the objectives of the conference, if he had explored the reasons why "we are not significantly advanced from where we were in 1960" (p. 15) and if he had indicated what accounting researchers should have been doing in the 1960's.

In "Some Fruitful Directions for Research in Management Accounting," Robert Anthony attempts to identify research topics in management accounting that have a good chance of eventual practical use. Accordingly, he concludes that there is great disparity between the topics on which researchers concentrate and the topics he feels likely to be most fruitful, and that economic models have rendered a disservice to management accounting because they focus attention on the wrong things. Demski replies that information economics, which was not critiqued by Anthony, is a potent body of knowledge which will provide many insights to accounting. Dyckman's comments are that a greater discussion of behavioral research should have been made and that model-building is an important aspect of accounting theory. Anthony's discussion that accounting research needs to be pragmatic seems appropriate as long as we do not reject a long-term outlook. Let us not forget that Einstein's theory preceded practical payoffs from the theory by decades.

David Green paints a pessimistic view in "Behavioral Science and Accounting Research." He enumerates many weaknesses in behavioral accounting research and tentatively concludes that it might be better to research other topics. Bruns and Birnberg counter that the area is a relatively new one and that unrealistic expectations should not be demanded. I agree with Bruns and Birnberg. While many weaknesses exist in the behavioral accounting literature, at least the researchers in the 1960's were asking very important questions.

The best paper in the collection is "Empirical Research in Accounting, 1960-70: An Appraisal," by Nils Hakansson. He collates and reviews the major articles and critiques them in a general fashion. He feels that the problems examined in the 1960's were relevant but that the attention of researchers should be expanded to other areas. Hakansson enumerates a number of research topics that are still fruitful areas for analysis. He also points out that model-building needs to be improved if empirical researchers are to study appropriate hypotheses. Benston and Gonedes point out further criticism of specific papers in empirical accounting research and they emphasize the role of predictions as opposed to realistic assumptions for model testing. The exchanges in these three papers provide an excellent analysis of empirical research in the 1960's.

The conference format for this topic had a few advantages but many disadvantages (see also Gerboth's review in *The Accounting Review,* October 1974, pp. 882-884). The basic advantage is that a number of leading scholars can debate the variety of issues involved so that a more balanced picture emerges. On the negative side, however, the conference format presented several problems. First, there is a lack of unity among the papers. Too many times the authors wrote as if the topics were mutually exclusive. It would have been more promising if a greater integration of the research aspects had been made. Second, the document lacks cohesion. Too many topics fell between the cracks and were not discussed; e.g., a deductive approach to accounting such as Mattesich's *Accounting and Analytical Methods, Measurement and Projection of Income and Wealth on the Micro—and Macro—Economy (1964)*; an inductive approach to accounting such as Schrader's "An Inductive Approach to Accounting Theory," *The Accounting Review* (October, 1962); an ethical approach to accounting such as Arnett's "The Concept of Fairness," *The Accounting Review* (April, 1967); and a macroeconomic approach to accounting such as Mueller's "Accounting Within a Macroeconomic Framework" in his *International Accounting* (1967). Finally, none of the papers provide any clues as to why research in accounting accelerated in the 1960's, what differentiated the 1960's from other periods of time, and why it took the forms it did.

Overall, the book is a good place to begin to obtain a historical perspective of accounting in the U.S. in the 1960's. The lack of integration and the lack of cohesion, however, limit it to only a beginning.

Marshall M. Kirkman, *Railway Expenditures: Their Extent, Object, and Economy,* 2 vols. (Chicago: Railway Age Publishing Company, 1880, Vol. I, pp. 370, xxxiv, Vol. II, pp. 370, xv; Reprint ed. New York: Arno Press, 1979, $60.00).

Reviewed by
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Marshall Monroe Kirkman was a productive writer from 1877 through 1906. The *Accountants' Index* of 1920 lists twenty-three articles, including this work, and a seventeen volume *Science of Railways* (undated). In 1877 he published a 499-page book, *Railway Revenue*. This work comprises two volumes; thirty-one chapters and two appendices in the first, and twenty-seven chapters plus Appendix C in the second, which displays the formats of fifty-eight forms for use in developing information for management.

Mr. Kirkman had an admirable command of the English language and obvious familiarity with railroads or railways which he used interchangeably. The two volumes are well-organized; the first, in brief review, pertains to the nature of the business, its objectives and its capitalization. The second volume deals with accounts, procedures, forms, audit and reports. His dissertation on the many areas of activity was quite thorough and many examples could be mentioned.

The author made many salient points, among which were: "There are few, if any, railroads in this country, at least, that have earned a fair return on what they cost" (p. 92). And, "Still other reasons than those we have given might be cited, if necessary, in explanation of the inability of our railroad companies to exhibit the full cost of their property" (p. 94). Also, "We shall find, for instance, if we carefully examine the working of our railway system, that the law of political economy, the law of supply and demand, as explained by those who have studied the subject, apply to our railway companies with surprising accuracy; that the same influences, in fact, that operate in fixing the status and value of manufactured products apply equally to transportation, the manufactured product of railroads" (p. 99).

The fifty-eight forms exhibited in Appendix C of Volume II are printed on forty-one different sizes of paper, some varying by only one-quarter of an inch. There seemed to be no reason for these differences; but, one can speculate that the dimension was determined after providing sufficient columns for the information sought, or, further, that the varying sizes distinguished the forms, perhaps for filing, although each was clearly headed.

When discussing the comparison of various figures, the author refers to the various factors bearing on operating results and concludes with this sentence: "All of these things must be considered, and their influence accurately ascertained, before we can judge intelligently of the management of a property." He was a proponent of dual cognizance of transactions.

Eight pages are devoted to a discussion of inventories and it is interesting to note that they were to be priced at "cash value at the time the inventory is taken." Such a practice could easily lead to appreciation or depreciation and questionable accounts.

There are many interesting items; one of which is the preparation and forwarding of payrolls. Kirkman requires that they not be folded and to be forwarded in tin tubes (p. 17). Could this be the origin of payroll, inasmuch as the word was not found in three dictionaries consulted?

Kirkman identified in numerous places many types of accountants by titles: accountant(s), accountant in charge, division accountant, general accounting officer, fuel accountant, local accountant(s), road accountants, subordinate accountants, voucher accountant, accounting officer(s), railway accountants. In Appendix A—"Officers and Operatives"—the number is limited to three, augmented by chief clerk for two of these; and six auditors by title, plus a general bookkeeper and a comptroller. On page 32 of Volume II, he expressed at some length a low opinion of embryo accountants.

Space does not permit a more extensive review which would disclose how far accounting procedures had advanced a century ago. This book will be interesting to present practitioners and historians for its perspective of accounting at that time.

J. Kitchen and R. H. Parker. *Accounting Thought and Education: Six English Pioneers* (London: The Institute of Chartered Accountants in England and Wales, 1980, pp. vii, 120, £5.95).

Reviewed by
Peter Boys
University of Kent at Canterbury

It is appropriate that The Institute of Chartered Accountants in England and Wales (ICAEW) should publish this historical work by Professors Kitchen and Parker, two distinguished academic accountants, in its centenary year. There is a foreword by Douglas Morpeth, former president of the ICAEW and vice-chairman of the Accounting Standards Committee. He acknowledges the contribution made by individual members of the profession and "that we owe much to men whom we have perhaps lost sight of and whose contributions we have forgotten" (p. iii). Mr. Morpeth particularly points out the contribution some of these early pioneers made towards the development of accounting standards.

The book contains seven chapters, an introductory chapter and a chapter each on the six pioneers:

Edwin Guthrie	1841-1904
Francis William Pixley	1852-1933
John Manger Fells	1858-1925
Lawrence Robert Dicksee	1864-1932
Arthur Edwin Cutforth	1881-1958
Frederic Rudolph Mackley de Paula	1882-1954

The Introduction briefly covers the general history of the period of the pioneers, in particular the growth of the accounting profession in England, the importance of auditing (four of the pioneers wrote standard textbooks on auditing) and the presentation of company accounts. Each of the chapters on the individual pioneers begins with a thumbnail sketch of their immediate family background and concludes with an assessment of the contribution they made to accounting. The major part of each chapter deals with the thoughts and writings of each pioneer. There are many quotations from their published works, in particular from the magazine, *The Accountant*.

A review of the subjects, in which each of the pioneers was interested and concerned, highlights the important issues that faced the profession between the 1880's and 1950's in England. For example, Guthrie was concerned with uniformity of accounting practice, depreciation and the payment of interest out of capital; Pixley and Dicksee were mainly interested in auditing; Fells in cost accounting; Cutforth in amalgamations; and de Paula in consolidated accounts and disclosure of accounting information. All the pioneers were, in one way or another, interested in the education of the profession.

It is assumed that the market at which the authors were aiming, particularly as it was published by the ICAEW, was the practicing professional accountant. It is hoped that it will appeal to professional accountants, and by reading the book they should soon appreciate that "What accountants do today is still, whether they know it or not, conditioned by the reactions of the pioneers such as Pixley to the circumstances in which they found themselves and by the type of men they were" (p. 23). In addition, they should appreciate the importance of research into accounting and that they need "the support of thinkers and writers in the education of new entrants and in the development of new ideas" (p. 1).

The book is well-written and researched, although perhaps rather short given its subject matter. It will clearly be of interest to accounting historians and teachers of accounting history courses. The book should also be of value to accounting teachers in general since it is a rich source of useful examples and explanations of the development of many accounting principles and auditing practices.

It was surprising and disappointing that a book written by such eminent academic authors should not contain an index. Equally disappointing was the fact that there were few references (other than to the pioneers' works) and no bibliography. However these omissions should not deter one from reading this interesting historical work.

Gary John Previts and Barbara Dubis Merino, *A History of Accounting in America: An Historical Interpretation of the Cultural Significance of Accounting* (Somerset, N. J.: Ronald Press, 1979, pp. xii, 378, $17.95).

Reviewed by
Arthur R. Wyatt
Arthur Andersen & Co.

Gary Previts and Barbara Merino have written a noteworthy book that will prove to be a permanent enrichment of the accounting literature in their *A History of Accounting in America*. The task they set for themselves was a formidable one—to consider the social, political, economic, and personal elements of eight significant eras in the evolution of accounting, from the time that Columbus first planted the seed of European culture in America to the present. A reader who expects to find only a scholarly recitation of facts will be surprised and delighted with the manner in which the authors have woven together a story of accounting in America in a fashion that is both scholarly in nature and a delight to read.

The authors have achieved a successful balance in each of the eight chapters, each covering a reasonably well-defined era in the evolution of accounting. Rather than concentrating on one or two facets of the accounting scene, the authors have dealt in a comprehensive way with the various institutional aspects of accounting, the evolution of accounting and auditing standards, the changing role of the educator in accounting, and the increasingly important contributions of accounting to our economic society.

Many will find the last chapter to be the most interesting, dealing as it does with "the age of political accountancy: accounting faces an identity crisis." Unquestionably the most difficult area to deal with because of the inability to place the fast moving developments in perspective, the authors have succeeded both in capturing the turmoil of the period and in providing clues to the challenges that the profession will need to face in the coming era.

Others will find other chapters to be of prime interest depending upon their individual backgrounds and areas of principal interest. For example, Chapter 5 concerns "The Formation of an Accounting Profession (1897-1918)." We find in this chapter a major section on accounting and auditing theory, a section that contains a fascinating discussion of the controversies of the period, controversies that in many cases remain either unresolved or under reconsideration more than sixty years later. After reflecting on the discussions and controversies of that earlier time on such matters as whether market appreciation should properly be recognized in an income statement, whether the balance sheet or the income statement should have relatively greater significance, and whether accounting should view the accounting unit from the perspective of the proprietors or from the perspective of the entity, one has to question seriously whether the evolution of accounting theory over the last sixty years has kept pace with the enormous increase in demands made upon the accounting mechanism to deal adequately with an increasingly complex political and economic society. In many respects the progress of accounting has kept remarkable pace with the demands made upon it. In other respects, those responsible for the establishment of accounting standards have to question seriously whether performance in the intervening period has been adequate to meet the expectations of those who use the results of accounting activity.

The History of Accounting in America will be particularly valuable to teachers and graduate students who are interested in placing the frustrating issues of the day in a suitable perspective. The book should also be required reading for standard setters in accounting and auditing including those in the larger accounting firms most responsible for technical policy formation. Other practitioners who have the time and inclination to gain insight into their profession will find the book to be refreshing and enlightening. Those of us in practice today as well as those who will join the profession in years to come will benefit greatly from the perspective of the profession provided by the authors.

M. C. Wells, *Accounting for Common Costs* (Urbana, Ill.: Center for International Education and Research in Accounting, 1978, pp. x, 179, $8.00).

Reviewed by
Daniel L. Jensen
The Ohio State University

This important scholarly work is an interpretative history of cost accounting with particular attention to the treatment of overhead costs in cost accounting systems. The work rests on an exhaustive examination of writings on cost accounting by engineers and economists as well as accountants. The complete bibliography, which is published separately under the title *A Bibliography of Cost Ac-*

counting: Its Origins and Development to 1914, fills two volumes and contains 1,875 entries accompanied by copious annotations. In addition, *Accounting for Common Costs* contains a bibliography of 150 items published after 1914 which are cited in its pages.

The purpose of the work, succinctly stated, is "(1) to argue that unit cost accounting, particularly insofar as it involves the allocation of overhead costs, is wrong in principle; and (2) to demonstrate that the error occurred when costing systems were first being developed and described" (p. 145). Accordingly the reader must evaluate Professor Wells' work both as a work of history and as an argument in principle.

Confusion in Textbooks

A survey of current cost accounting textbooks leads Professor Wells to conclude that their arguments in support of overhead allocations to units of production are "confused and inconclusive." "For, while nearly all of the authors point to the irrelevance of allocated indirect costs for planning, control, and decision making, they also advocate and describe the calculation of average unit product costs which include some allocated indirect costs. Similarly with respect to inventory valuation, the authors either accept practices supported by professional accounting bodies or make explicit appeal to the 'principles' of objectivity and matching costs with revenue. Yet they advocate methods of valuing inventories which are almost entirely subjective and which will match the costs and revenues of goods produced only by coincidence" (p. 19).

Wells attributes this rhetorical confusion to errors of authorship in the revision of textbooks and to a more fundamental misconception of the proposition that different costs are required for different purposes. Decision making, control and financial reporting require different costs, but discussion of the differences frequently obscures fundamental similarities among the costs and displaces more fruitful discussion of "an integrated accounting system capable of producing information which is necessary for each of the three functions it is said to serve" (p. 23).

Other Historians

Professor Wells begins his historical analysis with a critical review of "studies by accountants of the origins and development of cost accounting" with particular attention to studies by R. S. Edwards, David Solomons, S. Paul Garner, R. H. Parker and Sidney

Pollard. Professor Wells concludes that "Edwards, Solomons and Garner all emphasize techniques" and are "too restricted in their coverage to enable any evaluation to be made of the relative roles played by various professional groups in the development of cost accounting" (pp. 28-29). Parker, he believes, is somewhat broader but is also "deficient because it is isolated from other events of the time." A separate chapter reviews the work of Sidney Pollard to establish that departmental accounts and periodic reporting were inherited by industrialists from earlier times and were in fairly widespread use by the beginning of the 19th century.

Professor Wells views history as the interaction of various groups, each with a distinctive perspective, that must be interpreted in the context of its time. His history does more than chronicle the development of specific accounting techniques. His objective is to explain technical developments as products of an institutional context—a context peopled by engineers and economists as well as accountants.

Origins of Overhead Costing

Professor Wells agrees with most historical analysts that overhead costing emerged after 1870 when "investment in fixed facilities had brought about a significant increase in the amount of fixed costs" (p. 69). However, he disputes "the common view that competition provided the stimulus for the introduction of costing systems" (p. 66). Rather, he argues that the "real impetus to the emergence of an interest in cost accounting arose out of the unique environment enjoyed by American mechanical engineers"—an environment characterized by excess productive capacity and the associated problems of price determination and efficiency improvement (p. 70). "Only after the engineers had discussed the introduction of cost records did professional accounting bodies (and their associated publications) break down the long-standing tradition of secrecy in industrial works and take an interest in cost accounts" (p. 70).

Influence of Engineers

From about 1895 onward, intensifying competition stimulated heightened interest among engineers in methods of estimating future prices (p. 76). Most engineers accepted the proposition that estimates of product cost for pricing purposes should make provision for indirect costs as well as direct costs. Moreover, by 1910, "engineers generally appear to have respected the role of accountants, and in doing so accepted as automatic that the cost accounts and financial accounts should be linked. They accepted the necessity of allocating overhead, and of determining different rates for different departments, machines, and workmen. They accepted the notion that production time spent was the most important element in any allocation method" (p. 92). In this way, overhead allocations arising in price estimation procedures were introduced into the financial accounts. Professor Wells observes that the "appeal of a cost theory of value to engineers familiar with identifiable physical relationships is . . . understandable, but that does not make the theory any less incorrect" (p. 88).

Widespread concern with the efficiency of operations in the early years of the 20th century gave "impetus . . . to the adoption of costing systems" but the spread of scientific management was also associated with distortion of the "connection between economic efficiency and cost accounting" (p. 94). Advocates of scientific management failed to restrict the relationship between cost accounting and scientific management "to those aspects of scientific management which were relevant to cost accounting—identification of responsibility, comparison of achieved with expected performance, the exception principle" (p. 102). Professor Wells identifies two unfortunate consequences: "Support for overhead allocation was claimed from a source which could lend no support; and standard costs took on a prominence which was incompatible with their nature" (p. 102).

Influence of Economists

Although an examination of the literature leads Professor Wells to conclude that "economic thought and doctrine did not directly influence the development of cost accounting," he finds "some grounds for suggesting a pervasive *indirect* influence stemming from the classical economists of the eighteenth and nineteenth centuries" (pp. 105-106). The idea that costs attach to goods during production is in substance the cost theory of value advanced by Adam Smith and modified by Carey, Ricardo and other economists (p. 106). Despite this indirect influence, Wells concludes that "the direct influence which leads to the adoption of the notion that costs attach came from the mechanical engineers and their experience with the build up of physical goods" (p. 107). With few exceptions, economists "paid no attention to business problems as such" (p. 108) until the "adoption of marginalist principles by economic theorists" which directed the attention of economists to decision making and particularly the relationship between costs and prices (p. 110).

"By 1914, the economists appear to have been in substantial agreement about at least two matters—(1) that while an unattainable long-run normal price may be determined in part by costs, short-run prices are not, and (2) the cost of an article (or service) is indeterminate if the production of that article (service) involves joint or common costs" (p. 119). Yet, owing in part to the failure of economists "to make their work intelligible or relevant to accountants and businessmen," accounting writers continued to assert the necessity of costs as a basis for prices.

Concluding Comment

The evidence compiled by Professor Wells reveals a century of devotion to a rhetoric in support of integrated data-gathering and estimation systems, which has produced confusion in textbooks and elsewhere. Moreover, the record reveals a preponderance of support for the use of cost allocations in such systems. Professor Wells argues that this is all a mistake—a failure of communication between economists and accountants and an unfortunate artifact of the engineering roots of cost accounting. This reviewer is uneasy with such an interpretation. However one may feel about cost allocations as a matter of principle, casting them among the mistakes of history offers no explanation for their persistence or pervasiveness. Yet Professor Wells' prodigious and careful scholarship in describing the events and writings associated with the rise of cost accounting is a major contribution to accounting history. His work is no mere chronicle of events and writings, but makes a concerted effort to explain technical developments in terms of the larger historical context in which they occur. *Accounting for Common Costs* is an important work that deserves not merely to be read but to be carefully studied by all students of cost accounting history.

Stephen A. Zeff, *Forging Accounting Principles in New Zealand* (Wellington, N.Z.: Victoria University Press, 1979, pp. 88, $5.00).

Reviewed by
Herbert L. Jensen
University of Houston

The stated objectives of this monograph are ". . . to discover and trace the origins and evolution of the process by which accounting principles are established in New Zealand" (preface). Nonetheless what is presented is a narrative tracking of changes in the structure of standard setting elements within the organization of the New Zealand Society of Accountants (NZSA). The major theme of this discourse is the assertion that NZSA needs a full-time research officer.

This study would have been much improved had the author concentrated on why particular mechanisms for overseeing the profession of accountancy in New Zealand arose rather than on why modes of operations, that the author prefers, have not been implemented. "Traditions and axioms, sometimes without explicit recognition, reflect the nature of the environment within which they emerge."[1] One of the roles of history is to provide explicit recognition to formerly ill-understood links of social causality.

The first chapter of this treatise relates how the four accounting bodies in New Zealand merged into one. This is done by giving their names and dates of existence. There is also a capsule summary of NZSA's current organizational structure.

Chapter V gives cursory descriptions of the New Zealand financial press, Financial Executives Institute, stock exchange, sharebrokers, Registrar of Companies, and debenture trust deeds. This chapter, however, fails to delineate how these forces have impinged on the way NZSA has comported itself.

The three chapters interposed between I and V contain the book's main line of argument. They describe how NZSA slowly came to form an Accounting Practice and Procedure Committee which in its ten-year life produced no original accounting work (p. 25). This committee was superseded in 1960 by a Board of Research and Publications that was unable to get any of its promulgations accepted as mandatory until 1973. These chapters constantly emphasize the fact that NZSA has been and still is demonstrably unwilling to hire a full-time research officer.

The last chapter is an extended recommendation that NZSA develop an organizational element powerful enough to impose uniformity of practice as has become the mode in the United States. This is an unwarranted stance considering the relatively small size of NZSA, its tradition of sponsoring research competitions and university chairs, and the oft expressed opposition of NZSA members to any infringement on their professional autonomy. The author's recommendation also seems contradictory because he has observed elsewhere that "Instead of providing 'an underlying framework' for the promulgation of 'sound' financial reporting practices by standard setting boards, accounting theory has proven a useful 'tactic' to buttress one's preconceived notions."[2]

Many of the faults of this work result from the choice of the author's own research methodology[3] and the neglect of others that have worked well. For example, the delightful prose and insightful highlighting of personalities that makes the historical narratives of John L. Carey great literature (e.g. Carey, 1969) is missing. Edward Stamp is described as ". . . an apostle of North American practice . . . [who] left an indelible mark in New Zealand" (p. 87), yet neither the man nor his influence is described. Particularly nettling are the author's suppositions on why Stamp took the position he did on deferred tax accounting.

Most of the space in this work is occupied by people's names, the dates that they joined or left some committee, and place of various committees within NZSA's organizational structure. Line and block charts could have greatly clarified these changing situations. Such charts were used with devastating effect in the Metcalf report to display the power structure within the AICPA.[4]

What can be inferred from the study here reviewed is that there has never been sufficient government pressure in New Zealand to invoke a search for accounting principles. As a result the cost of cosmetic research to provide politically acceptable justification for nonexistent externally imposed demands for homogeneity of accounting practice has been viewed in New Zealand as prohibitive and unacceptable (p. 6).

FOOTNOTES

[1]McCracken, p. 4.

[2]Zeff, "Comments on 'Accounting Principles—How They Are Developed,'" p. 177.

[3]See Zeff, *Forging Accounting Principles in Five Countries* and Zeff, *Forging Accounting Principles in Australia*.

[4]Subcommittee on Reports, Accounting, and Management, pp. 3, 72, and 137.

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Spring 1981

DOCTORAL RESEARCH

Maureen H. Berry, Editor
UNIVERSITY OF ILLINOIS

The focus of this edition is on examination of interrelationships, many of them having international impacts or implications. We commence with consideration of the medium of exchange and its role in portraying economic events. A basic accounting principle holds that the financial effects of economic transactions must be recorded in monetary units. Consequently it is often assumed that nonmonetary transactions, such as barters, can be translated into monetary exchanges, for accounting purposes, through analysis of the underlying economic events. Gerriets evaluates and refutes this supposition in her examination of the role of money in the eighth-century Irish economy. At that time, most economic transactions took the form of barters and determinations of the amounts and types of goods and services exchanged were heavily influenced by factors other than relative economic values. For example, a lesser noble was obliged to give up valuable commodities or services to his lord in return for protection. In deciding how much tribute to offer, assuming he had a choice, the noble would be less concerned with matching the fair market value of protection services to be received than with the power of his overlord to extract payment. The overlord would, likewise, have been more interested in extracting what each subserviant noble could pay rather than attempt to set "fair" prices. Therefore, recording the values of exchanged services in that type of environment was more of a conceptual than a practical proposition.

Jumping over a continent and a millenium, we turn to Smiley's description of trade, including barter transactions, in nineteenth-century rural America. Given the agricultural setting, it could have been expected that bartering would be an accepted, mutually-beneficial, approach to exchanging goods and services in the upstate New York of the last century. Perhaps surprisingly, however, Smiley shows that this was true for the nation as a whole, with barter levels on the increase as the years went by.

The American Civil War forms the focus of Nye's work which assesses its impact on international trade and on the British money market in particular. The drying up of American raw cotton supplies which brought about the closure of the Lancashire cotton mills, which were famous for their role in the industrial revolution, forced Britain to look to the East. Thus began new or enhanced trade relationships with Egypt and India.

While Britain was looking to the East for trade expansion, the Ottoman Empire was attracted to the West. Following the Crimean and American Civil Wars, the United States and industrialized European countries constituted a world trade center which attracted the then developing nations. Pamuk's dissertation demonstrates how the twin factors of exportable agricultural products and reliance on foreign investment helped in the process which integrated the Empire into the expanding world economy of pre-World War I days.

The importance of foreign investment as a way of opening up foreign trade for developing countries is echoed in Odofin's examination of the impact of investments by multinational oil companies in Nigeria. As in the case of the Ottoman Empire, where foreign-financed railroads developed the interior, Odofin concluded that foreign oil investments contributed significantly to Nigerian economic growth during the past two decades.

Bait-Elmal is also concerned about stimulating capital investments in a developing nation, namely Libya. He, however, looked into the possibilities for internal stimulation rather than external investment. His study of the economic incentives available to U.S. business through the investment tax credit and accelerated depreciation allowances led him to suggest that these features be incorporated into the Libyan tax legislation.

The last study concerns yet another developing nation, the Philippines. Sarmago's concern, common to the third world, is with the primary agricultural product, the evolving financial infrastructure, and how these institutions grew in symbiotic relationship.

Money and Clientship in the Ancient Irish Laws (University of Toronto, Canada, 1978; 40/2, pp. 992-3-A)[1] by Marilyn Eleanor Gerriets. This thesis examines the role of money in the social, political, and economic environment of eighth-century Ireland: the significance of the Irish experience lying in the fact that it was untouched by the rise and fall of the Roman Empire. Drawing on

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

early eighth-century law tracts, the author examined the hierarchies of clientship ties which then permeated society. Descending from the kings down through the lesser nobility, exchanges of goods delineated economic and social bonds. As was later evidenced in Norman Britain, the higher social classes provided protection and cattle grants to their subserviants in return for military service and victuals. These exchanges were based on status and power, rather than economic considerations. Thus, money did not serve as a basic exchange mechanism or common denominator of value. Money was put to use however. Fines and certain social obligations were required by law to be paid in money, one obvious consideration being the exact specified amounts which could be transferred. Thus, money and exchange were concepts serving social, political, and economic purposes rather than specialized institutions lending themselves to economic analysis.

The Use of Accounting Records of the Harden General Store 1860-1900 to Study Price Fluctuations, Barter and Changes in Consumption (Purdue University, 1978; 40/1, pp. 379-80-A) by Bobby Eugene Smiley. The Harden store's accounting records for the period 1860-1900 provided the data for a dissertation which compared price fluctuations, barter, and changes in consumption for the small and isolated farming community of Rexville, New York, where the store was located, with the nation as a whole. These records are contained in the rare books collection of the Purdue University Krannert Library.

Long-run price fluctuations were measured by selecting items and years from these accounting records and calculating price indices for the items for the period 1860-1900, with 1860 as the base year. For the short run, the same procedure was followed except that the time period selected was 1869-1875. The price changes of each selected commodity, as well as the selected commodities as a whole, from the community's experience, and in both the short and long term, were compared with national data. To evaluate the significance of barter transactions, the author computed the store's ratio of barter sales to total sales for selected years. The changes in percentages of barter sales over selected time periods were then compared with changes in the U.S. consumer price index over these same periods. The nature of changes in the goods consumed locally was tested by preparing classified lists of all goods sold in the store in the following years: 1860, 1870, 1880, 1885, and 1900. These were then compared to evaluate buying patterns at ten-year intervals.

The results of the study suggested that the economic life of Rexville was a reflection of the national picture. Both in the long run and short run, there was a similarity between price changes at the local and national levels. Barter levels varied greatly from 9 percent in 1860 to 28 percent in 1900. From 1860 to 1885, barter level changes varied directly with general price changes, while 1885-1900, the variation was inverse. As for patterns of consumption, the mix of goods changed in an appreciable fashion over the period studied.

The Impact of the American Civil War on the Pattern of International Trade and on the British Money Market (Stanford University, 1979; 40/2, p. 993-A) by William Wesley Nye. This thesis describes international commercial activities during the period 1850-1866 and speculates about the impact of the American Civil War on both world trade relationships and the British money market. The study commences with a survey of major trading activities in the pre-Civil War era. British trade faced both West and East. The young American nation badly needed manufactured commodities and these she received from England in exchange for raw cotton. While building up mutually beneficial commerce with her erstwhile colony in the West, Britain was also bolstering commercial ties with her rapidly growing interests to the East. Heavy investments were made in Indian railroads and British political intervention promoted the opium trade in China.

With the onset of the Civil War and the Union blockade, Britain was forced to look elsewhere, to Egypt and India, for her raw cotton needs. In the meantime, however, the famous Lancashire cotton mills were forced to shut down which brought about a very high interest rate and a severe crisis in the London money market in 1866.

The behavior of the London money market during this sixteen-year period is examined through a three-equation simultaneous econometric model. Using monthly data, this model relates the behavior of market discount rate, the Bank of England reserves, and the Bank of England discount rate, with respect to several explanatory variables. It was found that an important determinant of the London market discount rate may have been loans to the London money market from the agricultural districts. The results of F-tests also suggest that the structure of the model shifted between the two periods 1850-1861 and 1862-1866. A possible explanation could be that as a result of changing levels of business confidence during the cotton famine, the Bank of England and private lenders altered their usual patterns of relationships between reserves and interest rates.

Foreign Trade, Foreign Capital and the Peripheralization of the Ottoman Empire, 1830-1913 (University of California, Berkeley, 1978; 40/1, p. 388-A) by Sevket Pamuk. This study examines a number of aspects of the Ottoman Empire's commercial integration into the capitalist world economy. Specific topics of interest were circulation and exchange, long-term trends in Ottoman foreign trade and in the Ottoman terms of trade with respect to the center of world-economy, defined as industrialized Europe and the United States, and finally patterns of foreign capital in the Empire.

The period reviewed ran from 1830 to 1913 during which time Ottoman trade with the world-economy center increased from two-thirds to four-fifths of its total foreign trade. This increased trade, especially marked during the period 1840-1873, followed the signing of free trade treaties with various European countries. Two major impacts were discernible: (1) Ottoman foreign trade was strongly affected by economic activities at the center; and (2) areas within the Empire which were close to port facilities switched from production of domestic products, such as consumer crops, to export items. Specialization in exportable primary products stepped up as prices of primary products remained fairly stable in the face of declining prices for manufactured goods.

The roots of the Empire's fiscal crisis of 1875-76 lay in the budget deficits of the Crimean War. The State was forced into external borrowing but the net inflows of funds were obtained on very unfavorable terms. Foreign debt grew rapidly while, at the same time, the Government was unable to increase its revenues. After the European financial crisis of 1873, the Empire defaulted on its obligations and in 1881 the state revenues came under European financial control.

During 1873-1896, the rates of growth of Ottoman trade with the center slowed, consonent with the slowdown in the center's growth rates, and there was a rapid decline in general price levels until 1896. During this same period, the terms of trade for the Empire substantially deteriorated, unfavorably affecting both the economy and the state's finances. Large sums of money had to be transferred abroad to service existing debt, in the face of declines in general price levels, thus limiting possibilities for additional foreign loans. Given this situation, the Government was more receptive than might otherwise have been the case to foreign capital investment, by way of railroad construction, during the period 1888-1896. This opened up the interior, facilitating integration into the expanding world economy of the period 1896-1913 because of significant reductions in transportation costs. These now accessible areas became increasingly important for their agricultural exportables, particularly as the competition from European imports destroyed the Empire's manufacturing activities. The dissertation ends with an interpretation of how these variables affected the peripheralization process. Detailed appendices of the data used are provided.

The Impacts of the Multinational Oil Corporations on Nigeria's Economic Growth: Theoretical and Empirical Explorations (The American University, 1979; 40/2, p. 984-A) by Christian 'Dare Odofin. This study presents a detailed examination of the activities of multinational oil companies operating in Nigeria during the period 1963 to 1975. Its objective was to evaluate the impacts of these firms on Nigerian domestic savings, economic growth, and balance of payments, using the Haavelmo, or Decapitalization, thesis and related hypotheses. A partial equilibrium model of the Keynesian-type foreign trade multiplier was specified in order to estimate the direct impact on Nigeria's national income of investment by the multinational oil corporations. The basic and overall concepts of balance-of-payments accounting were used to calculate the direct impacts on Nigeria's external balance of foreign oil capital inflows. A modified version of the Chenery Two-gap model econometrically tested the Haavelmo and related hypotheses. The induced employment effect of the oil sector was tested by a separate model which related petro-revenues to the rate of growth of public sector employment. Additional clarification of the detailed impact of foreign oil capital inflows was obtained by analyzing the dynamics of industrial growth through the use of an import-input/output dependency index.

The statistical results showed positive and significant relationships: (1) between the rate of growth of domestic output, imports of intermediate and capital goods, and domestic savings, and net foreign oil capital inflows; and (2) between petro-revenues and the rate of growth of public sector employment. The hypothesis that domestic savings and economic growth are negatively affected by foreign investment were not, therefore, supported. The study's major conclusion is that the growth of the Nigerian economy during the period 1963-1975 was significantly induced by foreign oil capital.

The Role of Investment Tax Credit and Accelerated Depreciation in Stimulating More Investment: The U.S.A. Case and Its Implications to the Libyan Income Tax System (University of Kentucky, 1978; 40/2, p. 924-A) by Mohamed Abdalla Bait-Elmal. The purpose of this dissertation was to measure the effectiveness of the U.S. investment tax credit and accelerated depreciation provisions in stimulating capital investments in order to evaluate their possible application in Libya. As a developing nation, Libya could benefit from increases in capital inflows to the private sector. Yet, little tax incentives have been offered during the twenty-five year history of its tax legislation, other than loss carry-back and carry-forward provisions.

The study commenced with a review of the effects of accumulated depreciation on cash flow. The author then proceeded to test the following null hypotheses:

(1) The relationship between investment tax credit and capital expenditure increases is insignificant.
(2) The relationship between net income under investment tax credit provision and capital expenditure is insignificant.
(3) The relationship between net income under no investment tax credit provision and capital expenditure is insignificant.
(4) The relationship between net income under investment tax provision and capital expenditure is insignificantly different from the relationship between net income under no investment tax credit and capital expenditure.

Net income and capital expenditure data for twenty companies in four industries were obtained from Compustat tapes for the period commencing five years prior to the enactment of the investment tax credit and ending ten years later. This information was examined using regression and correlation analysis. With respect to the depreciation allowance, inflation effects were adjusted for with hypothetical data.

The general conclusions of the study were: (1) that because of swift recovery of capital, accelerated depreciation methods encourage increased investment; and (2) rejection of the null hypotheses. As a result, the author made the following recommendations with respect to tax provisions in Libya: (1) that accelerated depreciation methods be permitted rather than the mandatory straight-line, historical cost-based approach now being followed; and (2) that all industries be granted an investment tax credit provision.

An Analysis of the Rural Banking System in the Philippines (Michigan State University, 1978; 40/2, p. 982-A) by C. S. Sarmago. Using data gathered from various primary and secondary sources, the author studied the evolution of rural banking in the Philippines and its role in financing agriculture. While the Central Bank supplied financial data, information about the characteristics of management and the capital structure of bank equity was obtained from mailed questionnaires and interviews. Census returns provided economic data concerning the communities which the banks served. The data were analyzed, using the following three different methods: portfolio analysis, mean differences, and regression analysis.

A Hester-Zoellner type model was employed to analyze the portfolio of sample banks. For the years 1971 to 1976, equations were estimated relating balance sheet asset and liability items to net operating profit. Coefficients of determination and significance levels resulting from equations for the years 1973 to 1976 were less satisfactory than those for the years 1971 and 1972. The author attributes this to certain unusual events in the later years, such as: martial law and change in government, petroleum price increases, and the floods of 1972. Expected relationships with changes in monetary policy were supported by analysis of mean differences. After the rediscounting rate to rural banks had been lowered, for example, the mean for the total rediscounting variable reflected a significant difference between 1973 and 1974. Although the results were not conclusive, several implications could be drawn: (1) rural banks required improved management assistance; and (2) market incentives and monetary policy changes influence rural banks given the existence of obvious incentives.

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TABLE OF CONTENTS
April, 1981

Announcement

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