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## Accounting Methods of Colonial Merchants in Virginia

BY ALBERT F. VOKE

It has been said that accounting methods represent "neither a discovery nor the inspiration of a happy moment, but rather the outcome of continued efforts to meet the necessities of trade." In order that one may more fully appreciate the accounting methods employed by colonial merchants in the eighteenth century it might be desirable to restate the progress made in the science up to that time and to indicate some of the peculiar financial and commercial policies with which the merchants in Virginia had to deal.

The sources of bookkeeping are lost in the mists of antiquity. William Gordon of England, writing the *Universal Accountant* in 1787, suggests that the first accountants were the first considerable merchants and that none have a fairer claim to precedence in this matter than the merchants of Arabia, because it was from intercourse with this ingenious people that the Egyptians derived their first notions of trade and consequently must have obtained from them their first form of "accountantship". This in the natural way of trade was communicated to all the cities of the Mediterranean. With the end of the dark ages Italy became the commercial center of Europe, as she previously had been the political, and by trade and exchange connected all the countries and introduced her methods of keeping accounts.

Whatever its origin may have been, it suffices our purpose to know that Luca Pacioli, an Italian, gave to the world the first printed treatise on the subject. His book, "Everything about arithmetic, geometry and proportion" (*Summa de Arithmetica, Geometria, Proportioni et Proportionalita*), was published in 1494, for the purpose of summarizing the existing knowledge of mathematics. The scope of the work was extended, however, to give "complete instruction in the ordering of business." That part of the book is entitled, "Of reckonings and writings" (*De Com-*

*putis et Scripturis*), and is composed of thirty-six chapters. Pacioli makes no claim to originality but explicitly says that he followed the "method of Venice" which was in use by the merchants of that city. By the end of the sixteenth century the Italian influence had become dominant in all European countries of commercial importance. Whether the bookkeeper was in Venice, Antwerp, Nuremburg or London, down to the smallest detail the same methods prevailed. This uniformity is to be accounted for not only on the basis of commercial relations but partly because young men who intended to become merchants went to Italy to acquire a knowledge of commerce which could not be obtained to the same degree elsewhere.

The system then in almost universal use is fundamentally the same as the double entry of our own day. Such changes as were made up to the beginning of the eighteenth century—the eighteenth century not being notable for improvements in the keeping of books—pertain to the handling of stock, titles to ledger accounts, journal postings for closing entries and to the technicalities of balancing. The saving of time or the reducing of clerical labor seems not to have been greatly considered, for the entries are far more elaborate than necessary and the writing was done with a care that gives it the appearance of engraving. To view the accounts of the early merchants is to marvel at the slow, tedious and painstaking work that the keeping of such records must have required.

The eighteenth century has been called the golden age of Virginia. The work of the early settlers had been practically completed. On the banks of the James, York, Rappahannock and Potomac rivers were the large plantations that gave the color and charm to colonial life. Merchants and factors were to be found living in the infrequent towns, while small landowners were numerous.

The merchants from whom the colonists obtained the supplies they required may be divided into three classes according to the nature of their activities: (1) The large planters frequently shipped their tobacco directly to England or Scotland to be sold for their account and in return ordered those things that must be obtained abroad; (2) many of the English and Scottish merchants shipped goods to be sold by factors residing in the colony; (3) the last class consisted of merchants who lived either permanently or temporarily in the colony and conducted stores in their own behalf or jointly with merchants

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abroad. In many cases the local merchants were men born in England and Scotland and trained in the commercial practices of those countries, or if not born abroad they had become acquainted with the methods used as the result of association with the representatives of trading firms. Usually the local merchants had come to the colony as factors, and having obtained an insight into the methods of conducting the trade and being tempted by the profits to be made, set up in business for themselves.

The products exported from Virginia were pitch, tar, turpentine, plank, hogshead and barrel staves, shingles, wheat, flour, corn, beef, pork, tallow, wax, butter and live stock. These the colonists exported in part to the West Indies, bringing home in return rum, sugar, molasses and cash. A small trade was also maintained with the Madeiras, where wine might be obtained in exchange. A considerable quantity of provisions was supplied New England and the Bermudas in exchange for joiner work, salt, spirits, iron work and some molasses. The larger part of the export trade, however, was with the mother country. The chief and staple product of the colony was tobacco. It was always sought by merchants in exchange for goods because of the profit to be made in its resale in Great Britain and other European countries. The pre-eminent place of tobacco in the life of the colony may be more fully realized when one considers that for over a hundred and fifty years it was the customary medium of exchange, and so common had the practice become that the assembly found it necessary to pass laws requiring certain transactions to be stated in terms of English money instead of pounds of tobacco. This situation is perhaps the most outstanding example of a civilized state using barter as the chief means of exchange.

The planters, after placing the tobacco in hogsheads, carried them to the warehouses where they were inspected as to quality and weighed by colonial inspectors. After the tobacco had been received the inspectors delivered crop notes to the owners, indicating marks, numbers, weight and species. On the sale of the tobacco to the merchants these notes were delivered to them. Thus they passed from hand to hand without endorsement, the title to the tobacco remaining with the possessor of the notes. Suitable provision was made to protect the owner in case the notes were lost or stolen. By law each hogshead was required to weigh at least nine hundred and fifty pounds net but this was usually exceeded, some weighing as much as eighteen hundred pounds.

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The heavier they were, however, the more advantageous it was to the merchant, as by long custom four hogsheads were deemed a ton for the calculation of freight regardless of what their weights might be.

Money was scarce in Virginia during the colonial period and the coins in use were obtained entirely from other countries. The assembly, in 1710 and 1712, fixed by statute the rates at which coin should pass as current money, and as amended in 1727 these continued in force until the revolution. These laws stated the value of unmilled English coins and those of Mexico, Peru, France, Arabia, Spain and Holland in terms of weight for both gold and silver. English milled silver coins were current at an advance of two pence in every shilling and the English guinea at twenty-six shillings. Copper coins were current at the same rates as in Great Britain. Below are the values in terms of English money for the more common foreign coins as stated by Campbell:

	Pounds	Shillings	Pence
Spanish double doubloons.....	3	10	00
Doubloons.....	1	15	00
Pistole.....	0	17	06
Arabian chequin.....	0	10	00
Pieces of eight.....	0	5	00
French crowns.....	0	5	00
Dutch dollars.....	0	5	00

Bills of exchange played an important rôle in both the internal and external trade of the colony. They usually arose from balances owed the colonists by merchants living elsewhere, and often passed through many hands before being presented for acceptance and payment. In order that the drawing of worthless bills might be discouraged a penalty of ten per cent. was added in case the bill was dishonored. Par of exchange between Great Britain and the colony was fixed, one hundred pounds sterling being equivalent to one hundred and twenty-five pounds in Virginia current money. Bills, however, sold from fifteen per cent. below par to sixty-five per cent. above, depending on the balance of trade.

One other type of money remains to be considered. In 1756, the assembly passed an act to provide for the issuing of twenty-five thousand pounds of treasury notes in convenient denominations, and these were to pass as lawful money. They bore interest at five per cent. and were to be redeemed June 30, 1760.

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In 1757 another act provided for the calling in of the notes of 1756, and the issuing of eighty thousand pounds of non-interest-bearing notes. Between 1756 and 1769 the colony authorized notes in excess of three hundred thousand pounds although they were not all outstanding at one time because of difference in redemption dates.

The merchants' opportunities for making profits were many. Acting as factors, they were commonly employed either on a salary or commission basis. Salaries ranged from fifty pounds to one hundred pounds a year in addition to living costs. The commissions were usually ten per cent. of the sales. Whether or not the factor could engage in other activities was a matter for personal arrangement, examples of both conditions being numerous. Goods were sold both retail and wholesale, the selling price being an advance of one hundred and fifty to over two hundred per cent. on prime cost on retail sales, and from seventy-five to one hundred per cent. on wholesale. Commissions of five per cent. were paid for the purchase of cargoes of tobacco and other products for export. Commissions of five per cent. were also paid on the sale of negro slaves consigned to the merchants, with an additional five per cent. on remittance. This netted the merchants seven and one-half or eight per cent. on the gross sales. In addition they frequently collected the debts owed to persons living elsewhere on which commissions of ten per cent. were normally charged.

On the other hand the risks were very great. Goods were sold on credit, terms of six months, a year and even eighteen months being given, with the payment to be made in tobacco. Consequently the losses from bad debts were enormous and the time required for collection long. A merchant writing to his brother in 1759, said: "They (stores) commonly are endless—the debts are so small and numerous that it requires posterity to finish a concern". There was no opportunity to inspect the goods purchased abroad and these often were ill-fitted to the needs of the merchants. Damage frequently resulted from storms at sea and improper packing for which adjustments were difficult to obtain. During many years of the eighteenth century war was being waged between England and France so that ships were liable to capture, causing both delay and loss to the merchants. Insurance was used, it is true, but in times of greatest danger the premiums would rise in excess of ten per cent. of the value of the

cargo. Business was subject to violent fluctuations depending on the one crop, tobacco. The value of this product determined the purchasing power of the customers and their ability to make payments. Again, there were the violent fluctuations of exchange that made uncertain the amounts required to settle foreign debts. Last, there was an ever-present risk for the merchants that took tobacco in payment or purchased it on their own account for resale in the mother country. While great profits were sometimes made, great losses were often suffered.

On the whole the merchants were a prosperous class and profits of one thousand pounds a year were not unusual. When it is considered that the purchasing power of money was about seven or eight times that of the present such profits seem very satisfactory indeed.

In considering the technical accounting methods employed, it should be borne in mind that they differed with the types of activities carried on, the information which the merchants desired and the time and attention devoted to accounting matters. Here it is proposed to consider the accounting records of a merchant, trading for himself in a retail way, accepting either cash or tobacco in payment, and shipping the tobacco received to merchants in Great Britain.

The financial affairs of every merchant were controlled by means of two distinct classes of books. The first, termed the general books, would include: (1) waste book; (2) journal, or in lieu of these two a day book, and (3) a ledger. The second class, called the subsidiary books, consisted of: (1) letter book; (2) invoice book, and (3) warehouse or tobacco book. If the extent and variety of the business warranted it several other subsidiary records such as cashbook, sales book and a book of expenses were also kept. The nature and purpose of each of the records will be briefly explained.

The waste book was the foundation on which the whole superstructure of the accounts was raised, for in this book were recorded the daily transactions as they occurred in point of time. It opened with the inventory, showing the various types of assets invested in the business and the debts due by the proprietor to others. The difference was termed "nett stock". Following this the daily transactions were jotted down as they occurred. All pertinent facts were indicated but transactions were not expressed in terms of debit and credit. It is interesting to note

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the necessity for this book as expressed by John Mair in 1757: "The filling up of the journal, being the nice and difficult part in bookkeeping, cannot well be performed in the time of business, but requires leisure and retirement, thought and deliberation. Nor is it proper to leave the transactions of the day unrecorded till the hours of business are over, for they may escape the memory and be quite forgot, or at best breed confusion. It is needful then, that a simple record go constantly on, keeping pace with the occurrences of trade, containing a complete narrative of everything transacted, out of which the journal may be made up at leisure hours. After the journal is filled up and corrected, the waste book is of little further use and probably on this account it has got the name it bears."

The journal was the book wherein the transactions recorded in the waste book were prepared to be carried to the ledger by having the proper debtors and creditors ascertained and indicated. The journal was the middle book, looking backward to the waste book and forward to the ledger, being allied and related to both. It was written with the greatest care to prevent errors from being carried to the ledger.

The day book was often used in place of the waste book and the journal. In addition to the inventory at the beginning of the business, all transactions were stated chronologically, and in such manner and with such detail as to make a complete record that was capable of being posted directly to the ledger. It was an attempt to abridge the work required by the other method (form 1).

Tuesday, December 15, 1772

Mr. James Robinson		
<u>560</u>	To 1 curry comb	2/
	To 60 yds. cotton @	2/4

*Form 1: Day-book entry*

The ledger was the principal book of accounts as it immediately answered the end of bookkeeping. Here were collected the several items bearing on each particular account, so placed that the opposite parts of every account appeared on opposing sides of the folio. Attention may be called to the origin of the word ledger. It is contended by many that it comes from the



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Italian, and signifies art or dexterity, because in it the artificial part of bookkeeping appears. Some choose to derive it from the Dutch verb "legger" (to lie or continue in place) because the ledger is lodged or lies in the counting house. Little need be said as to the contents of the ledger. In it were kept all the accounts with the various assets and liabilities, assets other than receivables being only slightly classified. Usually one expense account was sufficient. Profits were determined from merchandise accounts kept in a manner similar to the "old-fashioned" merchandise account of the present day, as were the tobacco accounts. In some cases, however, merchants kept separate accounts according to the various classes of goods sold. If ventures were made in the shipping of goods, accounts were set up with each shipment and the profit and loss were determined. At the close of the accounting period, commonly a year, the profits and expenses were closed into a profit-and-loss account for the determination of net profit, which was transferred to the "nett stock" account. The balance account was not opened at the end of every year by most of the merchants but only when it was necessary to transfer the accounts to a new ledger (form 2).

1761		Mr. Thomas Oxford—Culpepper	Dr.			
			Fo.	£	s.	d.
Nov.	10	To 1 gallon rum 5/, 2 one gallon jugs, 1 snuff box 2/6			10	
		To Bal. from Ledger A .....	7	1	12	8
1762						
Jan.	18	To 1 pr. men's shoes			6	
Mar.	13	To 1 doz. fishhooks, 1 bottle snuff			3	2
July	30	To Inspecting Tobacco			1	6
				2	13	4
Contra			Cr.			
			Fo.	£	s.	d.
1762						
Sept.	22	By Ballance		2	13	4
				2	13	4

*Form 2: Ledger account*

The letter book contained copies of all the letters of the business which the merchant had occasion to transmit, in order that he

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might always be reminded of the orders that had been given and the obligations incurred. Furthermore, it would permit another, in the case of death or removal of the owner, to obtain with the aid of the accounting records a complete insight into his affairs.

In the invoice book there were kept copies of the invoices received, showing in detail the kind, number and value of the goods as well as the duties, other charges and terms of payment. In addition, this record contained the physical inventory of stock on hand at the end of each year, showing nature of the goods, quantity and unit price with the total extended. Its use was to make the waste book less bulky and to permit the merchant to have all information pertaining to purchases in one place. It was not a book of original entry as the postings to the ledger for purchases were made from the journal or day book.

The warehouse or tobacco book contained a list of all the tobacco passing through the hands of the merchant. It was ruled with columns for the date of the note, the time when received, the folio of the ledger to which posted, the names on the notes if they were transferred, the mark, number and weight of tobacco and the disposition of the tobacco notes (form 3).

Crop tobacco on sundry warehouses for inspection—1790

When received		Date of note		From whom received
1790				
October	12	March	27	Rowley Petty

To whom payable	Warehouse	Warehouse Mk. and No.		Gross	Tare	Nett	How disposed of
Tho. B. Martin	Dixons	T. B.	512	1188	106	1082	Humphrey W. Ansland

*Form 3: Warehouse or tobacco book*

The cashbook was used by merchants who had sufficient transactions of that character to make such a record desirable. There were also in use different types of sales records, especially when it was desired to classify the sales to a considerable extent. One of the most interesting devices of this kind was a record that some of the English merchants required their factors to keep,

showing not only the sale price but also the specific quantity of every kind of merchandise sold in order that by comparing it with the goods sent, the kind and value of the goods for which the factor was responsible could be determined without a detailed examination of the entire ledger. Furthermore, it was customary for each merchant to place yearly in a small book that could be carried in his pocket an alphabetical list of all those owing accounts to him and the amounts. This he kept with him, especially on court days, in order that all possible collections might be made.

The only formal financial statement that was prepared at the end of the accounting period was one showing the assets, liabilities, the proprietorship at the beginning of the period and the resulting profit or loss from operations. This statement followed the present English practice of listing the liabilities and proprietorship on the debit side with the assets on the credit side (form 4). With the exception of this statement, the ledger accounts were relied upon almost exclusively to give such financial information as was desired. Factors submitted accounts current to their principals and at times even a duplicate ledger was kept to be sent to the concern in the home land. Many of the merchants, while maintaining double-entry records, did not include property accounts in the ledger but preferred to determine profits or losses by comparing the net worths at the end of two accounting periods. In ascertaining net worth all possessions were taken into consideration whether used in the business or not; and the

Dr. State of this concern 1st October 1761

	Tobacco	Virginia currency	Sterling
To amount of debts due by this concern for goods and partners inputs			3712-2-2
To amount of debts due in the country Exchange at 50 p. ct. to be deducted		1456-14-7¼ 485-11-6¼	
			971-3-1
To amount of tobacco ballances due by this concern	7892		
Ballance	18624		
	26516		
			4683-5-3

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Contra	Cr.		
	Tobacco	Virginia currency	Sterling
By amount of goods on hand p. inventory without charges			2390-
By tobacco on hand	16724		
By tobacco ballances due to this concern	9792		
	26516		
By ballance of Tob <sup>o</sup> debts and on hand 18624 @ 11/			108-8-8
By amt. of debts due to this concern in currency		2691-3-3	
100 p. ct. to make good and for collecting		1345-11-7½	
			1345-11-7½
By amt. of sterling ballances			84-10-9½
By amt. household furniture, negroes, horses			103-1-4
By lott with improvements, cost 238-17 at 50 p. ct. exchange			159-4-8
By Ballance			492-8-2
			4683-5-3

*Form 4: Financial statement*

desirable, conservative practice was to value accounts receivable at one-half of the book amount to make allowance for exchange and the loss from worthless accounts.

In the foregoing pages an endeavor has been made to point out the salient features of the accounting methods used by the colonial merchants of Virginia during the eighteenth century. They indicate complete bookkeeping in its simple form, but modified to meet the conditions that were prevalent in the colony at that time. There was less dependence on financial records because the concerns were small. The merchants could, however, determine from their books what was owed them and by whom; how much they owed and to whom; the profit or loss from the various activities carried on, and the property owned by them. This information appears to have been sufficient for their needs. It seems assured that as business progresses, accounting will keep pace with methods by which the necessary financial knowledge may be ascertained.