International Journal of Management, Accounting and Economics
Vol. 2, No. 11, November, 2015
ISSN 2383-2126 (Online)

www.ijmae.com

Conceptual Development of Accounting: A Historical Perspective

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Abstract

This paper attempts to analyze the conceptual development of accounting vis-à-vis the evolution of cost accounting and management accounting from the general accounting system. It also looked into the evolution and promotion of international accounting bodies. The investigation so far revealed that the historical evolution of modern day accounting, from all evidence date to 1211 A.D. when Italian bank was said to have kept a complete double-entry books of accounts. In the light of this therefore, we concluded that the invention of double-entry bookkeeping cannot be ascribed to any individual.

Keywords: Accounting, Account, Accounting profession, Development, History.

Cite this article: Omagbon, P. (2015). Conceptual Development of Accounting: A Historical Perspective. *International Journal of Management, Accounting and Economics, 2*(11), 1393-1402.

Introduction

Various authors have at different times in their writing credited the beginning of the development of modern day accounting to Luca Pacioli's 15th century work *Summa de Arithmetica, Geometrica, Proportioni et Proportionalita (Everything About Arithmetic, Geometry, and Proportion)* published in Venice, Italy in the year 1494 A.D. overlooking the long evolution of accounting systems in the primordial and medieval eras. Contrary to the believe in some quarters that Pacioli's work was the first work on double-entry bookkeeping, Beneditto Cotrugli had written thirty-six years earlier in his work "*Delia Mercatura et del Mercante Perfetto (of Trading and The Perfect Trader)* describing many

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International Journal of Management, Accounting and Economics
Vol. 2, No. 11, November, 2015
ISSN 2383-2126 (Online)

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features of double entry for which he was credited in Pacioli's work (Alexander, 2002). This assertion was validated when Ambashe and Alrawi, (Mar.-April, 2013, p.4) wrote:

Although Luca Pacioli did not invent double-entry bookkeeping, his 27-page treatise on bookkeeping contained the first known published work on that topic, and is said to have laid the foundation for double-entry bookkeeping as it is practiced today. Even though Pacioli's treatise exhibits almost no originality …

Also Walker, (nd, p.1) in her Article *Is Zero the best?* has this to say about the invention "In the 15th century, Benedetto Cotrugli invented double-entry accounting and Luca Pacioli introduced journals and ledgers". It was also shown in 1211 record of a *Florentine Banking Organization Ledger* that principle of double-entry has been in use over three centuries earlier (Liu and Yuan, 2011; Edwards, 1960).

The development of accounting may be looked into from three different dimensions, though one cannot categorically limit any of the dimensions to a particular point in time. The dimensions under which this paper is to consider the historical development of accounting vis-à-vis promotion of international accounting bodies are the Primeval era which dwells on record keeping in form of inscription on tablets of stones, clay and wood, and preserving such inscription as evidence that a transaction has indeed taken place; the Medieval era which saw the development of bookkeeping for the purpose of analyzing, classifying, and recording transactions as the means of reporting the financial position and other transactions carried out by an enterprise; and lastly, the Modern era which witness advancement in the development of bookkeeping with a lot of refinement into accounting.

Edwards, (p.447) in his work asserted that "Record keeping had its origins in the institution of private property and owed its subsequent development both to the growing number and complexity of property transactions and to the creation of monetary systems." Ownership of private property date back to the primordial era, and introduction of monetary unit as a legal means of measurement of value of goods and services created the need for specialization in the art of record keeping which later evolved into bookkeeping. Hence the vocation of bookkeeping was established. As trade and commerce continued to thrive and expand in terms of volume among nations the need to develop a more robust bookkeeping system and also the need for expert bookkeepers in increasing numbers became indispensable. This growing trend necessitated the transition into accounting which also has witnessed more development and separation into different branches – *Financial Accounting, Cost Accounting, Management Accounting, and more recently International Accounting.*

The purpose of this paper therefore is to examine the actual era in time from which modern day accounting started and also the promotion of international accounting bodies. Most author have argued that Pacioli's work marked the genesis of modern day accounting, some say it was Cotrugli's unpublished manuscript. While others said it started around 12^{th} Century A.D. with some amount of evidence to show.

ISSN 2383-2126 (Online)

Primeval era

Little can be said about the origin of record keeping as different nations had their unique way of keeping record. "The Chaldean-Babylonian Empire is considered to be the foremost regularly organized government in the world" (Edwards, 1960). This era which lasted until 500 BC saw Nineveh and Babylon referred to as *Centre of Trade and Commerce.*

During this era – from Mesopotamia to ancient Egypt, to ancient Greece, to ancient Roman – government businesses were conducted by *Scribes* who are known to be the earliest record keepers and as such perform the duties of lawyer, Attorney, and Accountant. They were also responsible for the collection of taxes and payment of expenses. According to Edwards, the Scribes maintained inventory records and prepared accounts similar to a charge-and-discharge statement showing amount received and paid out. In some instances the record tablets show the reason for the transactions.

Mesopotamia accounting system

This system date back to as far as 3500 B.C., five thousand years before the popularization of bookkeeping system. The book of record were kept by the scribe whose present day equivalent is the accountant. The Scribe's duties were more extensive in that he ensures all transactions' agreement comply with the code of commercial transaction as evident in *Hammurabi Code* and record such transactions on clay tablet since clay was in large quantity in the area. Although ***papyrus*** – a tall plant that is like grass and that grows in marshes especially in Egypt: ***Paper made from it were used for writing*** – were also used when available. In the place of feather quill, papyrus itself was also used in applying writing ink.

Ancient Egypt's accounting system

The ancient Egyptian system was developed in a fashion that is likened to that of the Mesopotamia. The use of ***papyrus paper*** allow for detailed recording to be kept for Royal Storehouses. With a well-established internal control system couple with Royal audit in place, the bookkeepers kept detailed record. However, their inability to establish a single unit of measurement for valuation of goods and services impinged on the progress of the development of their accounting system.

It can thus be said that both the internal control system and external audit system established during the Egyptian development is closely similar to the one obtainable in today's world of business (Edwards, 1960; Alexander, 2002).

Ancient Greek accounting system

The most important contribution of the Greek was its introduction of coined money around 600 B.C., widespread use of coinage took time, as did its impact on the evolution of accounting. The Greek banking system seems to be more developed than those of prior societies. Members of the Athenian Popular Assembly (the Senate) legislated on financial matters and controlled receipts and payments of public monies through the oversight of

International Journal of Management, Accounting and Economics
Vol. 2, No. 11, November, 2015
ISSN 2383-2126 (Online)

ten selected state accountants. The use of state accountant was to allow the people maintain real control over public finances (Edwards, 1960; Alexander, 2002).

Ancient Roman accounting system

Roman government requires its citizens to submit regular statement of assets and liabilities for the purpose of tax determination and citizen's civil rights. And as such Head of families kept traditional records called *adversaria (daybook)* wherein daily entries of receipt and payment are recorded and summary posted to another called *codex accepti et expensi (cashbook)* at the end of each month (Edwards, 1960; Alexander, 2002). Beside those records kept by the Head of Roman families, Roman bankers kept a third kind of record book called *liber rationum (book of accounts)*. The banker was duty bound to render account and, if asked, to produce an extract of the account before the praetor – a Roman Magistrate ranking below a Consul and having judicial functions – who was a government official (Wooff, as cited in Edwards, 1960).

This can be said to be the beginning of modern day system of reporting to a third party. The banker which is referred to as *quaestor* (Alexander, 2002) can be seen as the equivalent of the modern day Accountant-General.

Medieval era

The fall of Roman Empire interrupted the development of accounting system for over a thousand years. However, the Romans through the effort of the Church continued to preserve and improve on the existing techniques of receipt and payment bookkeeping. By 812 A.D., an ordinance known as *capitulore de villis* containing instructions for the administration of Imperial estates was issued by Charlemagne – also known as Charles the Great or Charles I, who was the King of the Franks from 768, the King of Italy from 774, and from 800 the first emperor in western Europe since the collapse of the Western Roman Empire. The ordinance prescribed that accounts of income and expenditure be kept and rendered. As a result of this development, numerous authorities were delegated by property/estate owners to actual possessors and users who are expected to give accounts of stewardship annually or as may be determined by the property/estate owner. This ordinance is a pointer to accounting regulation across international boundaries. According to Edwards,

Every judex, or steward, on the Emperor's estates was required to report, giving an annual survey of the royal property, including inventory of lands and tabulations of rents, fines, farm produce, and so forth. Estate income and disbursements were recorded in separate books, but not in anything like an account form as the term is used today. The transactions were recorded in a journal, more or less in essay form.

Evidence of a more advance characteristics of double-entry was found in *Florentine* Bank Ledger of 1211 A.D. It shows that the depositor's account was debited on one page and credited on another (Liu & Yuan, 2011; Edwards, 1960), and "In Italy, the journal of a banker was generally considered a public record, which could not be contested in court." Staley, (1906, p.178-179) (as cited in Sangster, p.4) in his own opinion stressed that:

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Vol. 2, No. 11, November, 2015
ISSN 2383-2126 (Online)

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the genesis of double entry bookkeeping as defined here must be upon the bankers rather than the merchants, is to be found in the terminology of accounting which originated at that time in the *banker's guild of Florence*, including: *cassa* (cash), *banco* (bank), *bancarotta* (bankruptcy), *giornale* (journal), *debito* (debt), *debitore* (debtor), *credito* (credit), and *creditore* (creditor).

This opinion also invalidated claims that Pacioli and/or Cotrugli is/are the father(s) of modern accounting. Even though some authors have in their work credited the wide spread use of double-entry bookkeeping across borders to the publication of *Summa*. The claims by authors that are of the thought that Pacioli and Cotrugli are fathers of accounting is a fallacy owing to the enormous evidence that abound as to the invention of journal, ledger, and indeed double-entry bookkeeping been traceable to *Florentine* bank ledger and other account book kept by *Florentine* merchants in the early 13th century.

Modern era

The later end of 15th and the start of 16th century saw the complete transition of record keeping into bookkeeping of today. Businesses now require the services of a bookkeeper who is to maintain permanent financial record and statement of assets and liabilities and that of income. The growth of partnerships and joint stock companies developed accounting reporting from that which is intended for two parties to that of multi-party. This in turn had a direct proportional increase on the number of bookkeepers in employment.

The increasing number of bookkeeping practicer gave credence to the importance of accountants in municipal life of the people and indeed business survival. The importance of the accountant in Italy in the latter part of the fifteenth century is further suggested by the fact that in 1484 Duke Gradaliazzo Maria Visconti, of Milan, granted to Giocanni Longone, his accountant the legal right to confer upon his descendents the office of accountant of Milan. This act is also a pointer to the establishment of the Office of the modern day Accountant-General.

Even though the oldest and well preserved accounting record written in English language is in the Pipe Roll or Great Roll of the year 1130-1131 A.D. which can be found in the Exchequers of England and Scotland, the first record of a complete double-entry system of bookkeeping is found in books of accounts of stewards at Genoa in 1340. In 1406, a firm of traders known as Soranzo and Brothers not only kept ledgers but also income statement and that of Capital, and by 1482, the ledgers were being closed and profits calculated on an annual basis (Edwards, 1960). We can posit here that complete financial statements were prepared at different interval and that a fully developed double-entry bookkeeping system had emerged at the end of 15th century.

The British Lords of the 14th, 15th and 16th centuries due to the fact that their estate were yielding large return needed to employ the services of experts such as the steward who is to oversee the entire estate, the surveyor for the purpose of valuation, the receiver who is to receive cash and make payment, and the auditor who at irregular interval is to carry out audit. It is however not clear as the particular point in time whereby accounting evolved out of bookkeeping. The features of *limited liability* present in the joint-stock

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ventures of the late 16th and early 17th centuries is one landmark in the developmental history of accounting. Although, a detailed investigation have revealed that around 1250 A.D. in Toulouse, France, 96 shares of the *Société des Moulins du Bazacle* (Bazacle Milling Company) were traded at a value that depended on the profitability of the mills the society owned, making it probably the first company of its kind in history to have shown such features. The earliest joint-stock company recognized in England was the Company of Merchant Adventurers to New Lands, chartered in 1553 A.D. with 250 shareholders. Russia's Muscovy Company, which had a monopoly on trade between Moscow and London, was chartered in 1555. The much more famous, wealthy and powerful English (later British) East India Company was granted an English Royal Charter by Elizabeth I on December 31, 1600 A.D. Soon afterwards, in 1602, the Dutch East India Company issued shares that were made tradable on the Amsterdam Stock Exchange. This invention enhanced the ability of joint-stock companies to attract capital from investors as they could now easily dispose their shares. With joint-stock companies, the need to conserve investments became a monumental issue, as evidenced in the statement of the governors of the British East India Company that future distributions would consist of profits earned as against return of investment. These were the forerunners of the modern day corporation and by implication, had helped in the development and popularization of double-entry bookkeeping as well as modern day accounting system. This policy introduced the problem of determining the difference between income and capital invested and thus increase the responsibility of the accountant (Edwards, 1960).

The transition point

The next century after Pacioli's publication of the *Summa* saw his followers attempting to advance on his work with some publication on bookkeeping appearing. Notable among such publication was a 1525 A.D. 24-page pamphlet on bookkeeping that was much better adapted than that of Pacioli for use in class room. Thereafter a sharp declining of importance was been recorded for Italian authors as a reflection of the decline of their country's commercial progress. While Italian authors were busy with advancing on Pacioli's work, the Dutch authors were beginning to take center stage. Holland was the training school of the British merchants and at the time had become the leader of Atlantic trade.

The Dutch authors at different time in the 16th century published various work on the modern day accounting. Edwards had written that:

The first native Dutch writer to deal with the subject of bookkeeping was Jan Ympyn Christoffels, whose treatise was published in French in 1543 and in English in 1547. He introduced the trial balance, as such, for the first time. Then, in 1588, Nicholaus Petrie, also of Holland, published the bookkeeping treatise in which the compound entry was first introduced. Simon Stevin of Holland published his Hypomnemata Mathematica in 1605. Stevin separated the ledger and inaugurated the practice of keeping the cash account, expense account, and so forth, in subsidiary ledgers. He also introduced the practice of balancing the profit and loss account at the end of each year, using the account itself, rather than a formal statement, to reflect the profit.

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The translation of some of these works written in both Latin and French into English and the ones originally written in English couple with the establishment of colleges of accounting across Europe notably Italy and Holland helped in popularizing newly developed modern way of keeping account.

The origin of cost accounting

In view of its long and interesting evolution, cost accounting is probably one of the oldest managerial tools used in the determination of taxes and also prices of products such as antiquity. The ancient Egyptian, Chinese, and Arabian antiquity merchants had employed the services of expert for the purpose of price determining costs. According to Perren (1944) (as cited in Tanis, nd)

In Egypt, 3,000 years before Christ, accountants had to present to the Pharaohs each year a detailed report on the net cost of harvest, so that just taxes on wheat could be levied. The ancient Code of Manu made obligatory the periodical auditing of trading profits by court auditors. ...... In Books VII and VIII of these sacred Laws we find the following two passages: `Merchandising experts will establish the sales price of goods, so that the king may levy 1/20 of the profit thereon' ...`the sales price of merchandise shall be evaluated according to the distance it has travelled, the time it is kept in storage, the expenses connected with it, the time it has to travel to reach its final destination, and the profit that can be anticipated'.

The 1100 B.C. China had adopted the use of similar costing techniques for governmental budgeting and expenditure control. It has generally been believed that modern day cost accounting had its origin in the rise of the factory system in the Industrial Revolution of the 18th century (Tanis, nd).

Other evidence suggested that Cost accounting which have to do with the recording and analysis of factory expenditures, had its developmental modern day origin from the time of Henry VII of England (1485-1509), when a large number of small woolen manufacturers, being resentful of the many guild restrictions, moved to the country villages from the cities, and established industrial communities, hoping to be able to sell their finished products through other channels than the organized guilds. At that time, the smaller factory owners found themselves competing not only against the guilds, but also among themselves, giving importance to keeping of more accurate records of costs as a prerequisite for success. By the end of 17th century, cost accounting seems to have reached its laudable height.

Origin of management accounting

As large business enterprises such as textile mills, iron and still works etc., appeared with an extensive use of machinery in industrial production, modern day management accounting began to evolve out of cost accounting. Stone, (as cited in Tanis, nd) had described Charlton Mills of Manchester as having a complete cost accounting system that was first used as early as 1810. Prime costs for labour and materials were collected and, by using predetermined rates, general expenses were allocated to them.

ISSN 2383-2126 (Online)

According to Johnson and Kaplan (1991) (as cited in Tanis, nd) "In the late 19th and early 20th century, engineering managers such as F. Taylor and Emerson devised new cost accounting procedures primarily to assess and control financial and physical efficiency of processes." Tanis continued by saying that "Their aim was not to evaluate the overall profitability of the company, but to assess the efficiency of processes." This system was designed by the engineers rather than the accountants hence the reason for its disappearance shortly after 1910. Not until the 1950s there exist no textbook on management accounting. Tanis stated that "Management accounting should deal with making decisions and the behavioural factors that affect managers who use those numbers, not just with the numbers themselves." This was evident in the behaviour of F. Taylor and Emerson when they attempted to introduced new cost accounting procedures for the sole purpose of decision-making. These development helped draw thin line between management accounting and cost accounting and also in the publication of the first management accounting textbook in 1950 by Bill Vatter, who had followed tradition *different costs for different purpose* of J.M. Clark (1923) (Johnson and Kaplan, 1991 as cited in Tanis).

Evolution and promotion of international accounting bodies

The evolution of accounting bodies date back to as early as 1164 A.D. Milan, when accountants serving as independent representatives of the public had come together to develop and compile a set of General Regulations of Taxation on Land, confirming the early formation of the body of accountants, though it may not have been formally christened. However, the christening started in the 19th century when accountants began to organize themselves to form different accounting firm in the United Kingdom, while in Italy according to Edwards, "a College was established in 1739 under the influence of practicing accountants of Milan, … was opened in 1745. It was decreed that only graduates of the school should be legally recognized as practicing accountants." It was however not until 1854, precisely on the 6th of July when accountants practicing in Scotland organized themselves under the aegis of The Institute of Accountants in Glasgow petitioned Queen Victoria for a Royal Charter marking the beginning of modern day accounting bodies. By 1887, American Association of Public Accountants was formed.

Almost a century later, the International Federation of Accountants (IFAC) was formed in Munich, Germany in 1977. Prior to the formation, Accounting profession have been internationalized for a long time, with the first international congress for accountants being held in St. Louis, USA in 1904, and the second, where there were more substantial numbers of foreign delegates, in Amsterdam in 1922. The 8th World Congress held in New York in 1962 discussed the need for international standardization of accounting and auditing practice. In 1965, Sir Henry Benson saw the need for accounting institutes in the US, Canada and Britain to establish the 'Accountants' International Study Group (AISG)'. At the 9th International Congress (Paris, 1967) an international working party was set up to examine the international needs of the accounting profession and to report back to the next International Congress to be held in Sydney in 1972 (Olson, 1982 as cited in Humphrey & Loft, 2008).

Following the report of the international working party, an International Coordination Committee for the Accounting Profession (ICCAP) was formed at the 1972 Congress. The membership of ICCAP comprised five, fifteen year members (namely, Australia, France, the Netherlands, UK and the USA) and six, five year members (Canada, West Germany, India, Mexico and the Philippines, with Japan being voted in as an additional five year member at the first meeting of ICCAP) (Humphrey & Loft).

Conclusion

In summary, investigations into the historical development of accounting revealed that there have been well organized forms of accounting reporting system and that, if dig deep, there may be more evidence to prove that double-entry bookkeeping may have been more develop in centuries before 1211 A.D. It also revealed that there is no real evidence to show that Luca Pacioli popularized the use of double-entry bookkeeping and that its invention cannot be ascribed to anyone base on the enormous evidence cited earlier in this paper.

The various developments in view of the transition from record keeping to double-entry bookkeeping and finally to accounting and indeed the evolution of cost and management accounting have been due largely to rapid industrialization and commercialization and also the quest for perfection.

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