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The Yellowed Square of Paper:
The Archival Appraisal of Accounting Records

Michael V. Lewellyn

Each morning the junior staff awaited the arrival of the senior accountant. He went to his desk, donned his green eye shade, rolled up his sleeves, unlocked his desk, and removed a yellowed square of paper. He read it and returned it to the cavity of his desk. With the window to the left of his desk, the senior accountant began his day. Each day he repeated this regimen, while the junior staff wondered what the yellowed square of paper contained. After many years the old accountant died. Hurriedly, the staff ran to his desk, unlocked it, and read the paper. It read, "Remember, the debits are next to the window." The senior accountant simplified the convoluted mysteries of accounting with his simple reminder. The moral of the anecdote, and of this article, is simple. Taking the mystery from accounting is the necessary preface to its understanding and appraisal.

On first sight, stacks of dusty old ledgers appear uninviting to the researcher, but the records of accountancy have proven to be rich in detail for the historian's interpretation. A number of biographies, notably Steel's T. Butler King of Georgia, used account books extensively. Corporate biography, like Harold Martin's Three Pillars of Trust Company of Georgia, is in its most elemental form a narrative of profits and losses. But accounting records may also reveal the mix of individual cupidity, social necessity, and institutional opportunity, as in Seymour Mandelbaum's Boss Tweed's New York. When Lewis Atherton wrote The Country Store and Mainstreet on the Middle Border, defining the predominant business institutions of the post-Civil War South and Midwest, he relied heavily on account books. With their use of accounting records, two books in particular have redirected historiography. Gene Gressley's Bankers and Cattlemen used the ledgers and journals of western stockmen to redefine the roles and relationships among investors, commission agents, and ranchers in the range cattle industry. Despite the furious criticism excited by Time on the Cross, Robert W. Fogel and Stanley Engerman exploited accounting records in a new interpretive fashion and forced their critics to use similar evidence. The new school of econometric history is dependent on the use of quantitative data, including accounting records, and alternative suppositions.¹

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Despite their value, accounting records present many problems. Most archivists lack an understanding of accounting formats and the sequential flow of information between these record types. Consequently, the uninformed appraisal of accounting's large volume of loose papers and bound books encourages indiscriminate retention. Whether one is a special collections librarian or a public archivist, account books are generally a cause of anxiety for us, when we can think about them, and frequently an unreasonable expense of shelf space, labor, and overhead.

This essay aspires to define the formats and essential theory of accounting, to erect a scaffolding for the appraisal of accounting records, and to argue the selective retention of only essential information. In writing this, I acknowledge my bias towards records management and its "life cycle" conception of the creation, use, maintenance, and disposal of records. Accounting records come to an archival custodian: 1) as a part of a manuscript collection which includes the account books of an individual's personal affairs or his business; 2) as a collection of business records without personal papers, varying in size from a few volumes to a truckload; or 3) as part of an internal, procedural transfer to an archivist or a records manager from a creating office. The last case is singularly different. In such a situation, historical or informational values are secondary to the administrative, legal, or fiscal value of the series. Regardless of how these records are accessioned, one must remember that accounting records are unique and must be appraised according to special criteria.

A THEORETICAL FRAMEWORK

Accounting is a discipline which measures, summarizes, and interprets information relevant to the economic activities of an organization. This economic entity may be a proprietorship, a corporation, a political subdivision or government, or a non-profit group such as a church, a chamber of commerce, or a university. The economic activities of an organization are measured in units of dollars to give a common, compatible reference. The utility of accounting records is weakened when historical inflation, social costs and overhead, and barter transactions are not considered.

A business operates on either the cash or accrual system of accounting. Cash accounting creates only a journal as the primary record and does not permit credit accounts. Accrual accounting records revenues or expenses on the day a transaction is committed whether or not any cash is exchanged. To maintain the duality of transactions, the accrual system operates a journal to record entries chronologically and a ledger to record entries by account or subject.

The great revolution from a cash to a demand deposit economy during the 1890's profoundly affected accounting and the creation of records. The broadening use of checking accounts accelerated the demise of cash accounting and facilitated the wide acceptance of accrual accounting. In its simplest form the cash system required only a journal and cash receipts. The expanding marketplace created manifests, bills of lading, and invoicing; the expansion of checking created deposits, checks, and another surge of invoicing. The years between the Great Depression of 1893 to 1914 mark a watershed in the creation of types and growth in the volume of entry documentation in addition to the basic journal and ledger. Consequently, this entry documentation often equals the volume of the two account books.

Not all financial records are accounting records. Financial records--such as entry documentation including cancelled checks, bank deposit receipts, receipts for cash payments, invoices for goods purchased or ordered, waybills, and other transportation records--record information for entry and provide source documentation for the administrative reference of accountants and auditors. Accounting records arrange, measure, report, summarize, or interpret financial information. Arrangement and measurement segregate data into classifications based on function, product, line-of-business, a calendar cut-off, or some other grouping. Reporting, summarizing, or interpreting requires the fashioning of data and its analysis into a series of quantitative statements or narrative reports. The latter forms reflect decision-making and are more important. During appraisal, the archivist must confirm that the accounting records adequately recapitulate the data of the financial records.

The theory and practice of accounting is built on a single equation: "assets = liabilities and equities." Assets are desired objects with a measurable dollar value, such as mortgages, mining equipment, or moonshine in Mason jars. Liabilities are binding debts or claims owed to others, such as bills payable or toll road revenue bonds. Equities represent the difference between assets minus liabilities or net assets belonging outright to the holder, such as an inventory of seed peanuts or shares in a shrimp fleet when all the debts are paid.

The equation has two corollaries. If one makes an entry or entries to one side of the equation, then one must make an equal entry or entries to the opposite side of the equation. Thus a double entry system maintains a balance of accounts in the ledger and the journal. The second corollary stipulates arbitrarily that revenue is recorded as a debit ("next to the window"), and expenses and profits are recorded as credits. The corollary equation reads: "revenue = expenses and profits," and the rule is followed for both the journal and ledger.

THE FIVE FORMS OF ACCOUNTING

Accounting has five major formats. The journal and analogous daybook are the "book of first entry." The ledger is the "book of final entry." The unit data of these two forms are interpretively arranged and summarized in the statement of financial position and the statement of earnings. Although the titles and construction of the two statements have varied historically, the captions and design of the modern statements will enable the archivist to identify pre-twentieth century forms. Managerial accounting is a textual manipulation of data.

The journal is a register of entries in chronological order. The information recorded may vary widely but ideally includes the date, a description of the transaction, the ledger "folio" or page number, and the dollar amounts with a running total. The transaction description contains two elements or lines: the debit is denoted with a "Dr" usually on the top line, and the credit is denoted with a "Cr" usually on the bottom line. A journal does not have an index. The daybook is a journal with a long-narrow format and briefer space for daily entries; they are used primarily to record cash receipts.

The ledger recapitulates the journal's chronological data into accounts arranged at random with an alphabetical or numerical index. Manual systems title each account with a caption for a person, firm, product, or process such

as "sewing snufflepeguses." Large accounting systems assign a number to each account and a series of numbers for categories of accounts like the 3,000's for taxes and 3,001 for corporate income tax. The ledger information varies but ideally includes a date, a description of the transaction, credit(s) and corresponding debit(s) in separate accounts, the journal folio number, a dollar amount, and a running total. The ledger's alphabetical index to the accounts provides a key to the accounting cycle; and it consequently supercedes the journal in archival utility and retention value.

Two derivative records of account books may be vitally important. Both ledgers and journals segregate accounts into specialized, subsidiary books for sales, delinquent receivables, cash receipts, and other series which are summarized into the parent account book. Subsidiary books should be compared closely with the parent account book; they may include vital, disaggregated information. The total of all debit and credit accounts in the ledger gives the trial balance, which is a crude but useful summary for scholars. It is, however, neither as useful nor as reliable as the two statements.

The modern statement of financial position or balance sheet measures the assets, liabilities, and equities of an organization at one specific point in time. The arrangement of the statement reflects the basic theory. The assets may be listed as single items or classified as aggregates. A current asset or liability is expected to be collected or paid within a year. A long term asset or liability is expected to extend beyond a year. Individual stock ownership in a business is recorded in the minutes or in a subsidiary ledger; a proprietor or partnership records equity in the retained earnings. The latter category records profits left in the business. The statement of financial position or balance sheet is the most important statement when compared with earlier balance sheets because it reflects a cumulative total of prior assets, liabilities, and changing equity.

The earnings or income statement summarizes the economic activities of an organization for a specific period of time. The statement is also called a profit and loss statement, a statement of income, profit, loss, and other variations. The statement measures the revenues received against the resources expended to create those revenues for a common period of time. The earnings statement, however, does not include cumulative data; but it does demonstrate the profitability and efficiency of an organization from period to period.

Managerial accounting is an additional form of interpretive reporting which arranges financial data to inform stockholders, management, or even the bondholders of a company. The subjects of managerial accounting may vary from the consideration of alternative investments to the analysis of a manager's performance. The managerial accounting report may be a single item or a serial; the report may be specialized, argue a specific point of view, or lack explicit documentation. Managerial accounting reports may have more informational value than the other formats. They are particularly valuable in use with other accounting records.² Historical examples of managerial accounting tools include the condition reports of southern railroads after the Civil War, attorneys' investigations for British investors of western mining or cattle properties, and the multi-volume report of the U. S. Industrial Commission, 1898-1901.

BEFORE APPRAISAL

A deliberate, articulate policy should guide the acquisition of accounting records. The mere presence of bodies of material due to administrative inertia is not sufficient justification for archival retention. Over twenty-five years ago, a distinguished business archivist contended that although it was difficult, "to anticipate every use of the records, yet the broad interests of the users should be kept in mind" in making accessions.³ Before the archivist elects to collect accounting records, he should deliberately design a coherent, collecting policy. When he assumes a new position and inherits an accounting collection, the archivist should re-ascertain its value to the institution. One should consider the mandate granted to the archives by its parent institution and its constituent clienteles. A university with a strong economics or business administration school would utilize accounting records, but would the special collections at a liberal arts college do so, too? Will accounting records complement the other collections of an archives?

The resources of all archives are finite. Accounting records invariably consist of a few volumes or many cubic feet. The archivist should attempt to extrapolate what is the maximum amount of space that could be allocated to accounting records. Will space for personal papers be forfeited? Does the archives have additional space for processing massive collections? Is additional staff time available for processing, or will the donors of accounting records be encouraged to contribute funds for processing? Are the winds of research favorable to a collection of financial records? Each on his own must analyze the use statistics of his collection. A university special collections must continually refresh its collections to provide work for its graduates and faculty. Library reference rates, faculty book orders, and even random interviews among students will reveal the range of patron interest.

The construction of a research collection of business materials is best determined by aggressive acquisition predicated upon intensive homework. One must understand an area's economic evolution before collecting account books. City directories and decennial censuses are particularly valuable in defining this evolution. At the University of Wisconsin, Parkside, Nicholas Burkell established a program to inventory and schedule the essential records of prior and existing businesses in a small geographical area. One should acquire representative accounting records or collect in a predefined order of priority. For example, an Atlanta archivist might decide that gold and coal mining was more significant than flour mills or hotels. After identifying one's collections needs, the archivist can decline or accept collections according to his target. Before appraisal the archivist should consider whether the accounting records have residual active values. Will the record creator or record user have any continuing reference to the record? Do the records document the expenditure of public funds, as by United Way agencies, or do the records document the use and depreciation of capital equipment for purposes of taxation? Do the purposes of future legal or audit questions preclude the disposition of any part of an accession? Do the policies of an organization dictate use limitations on any class of employees or the public; or does the quality of some portions of a collection dictate confidentiality?

Before physically transferring the records of a savings and loan or of an eleemosynary society, the archivist must consider what he will accept. Shall one accept artifacts, even when they are illustrative and in good taste? How does one decline to take the contents of the late auditor's desk? One must be flexible in confronting blank forms or technical reference publications

while retaining the autonomy to dispose of useless paper or return any manner and number of items to the donor. In all cases, one should establish some measure of box-level control at the site. Blessed is the donor who creates even a rudimentary description of each box's contents. The additional labor will give the archivist the essential tool to recognize and organize the patterns of the collection.

The appraisal of accounting records must be informed and comprehensive in perspective. Oliver Wendell Holmes once commented that, "Records properly described are half appraised...records seem almost to appraise themselves once clearly identified and well defined."⁴ As a minimum, this identification should include the title of the series, the name and name changes of the organization, the date span of the series with any date breaks, arrangement, and indexes, physical condition, and the series' relationships to other series. The archivist should conceive and appraise accounting records as organic record series, common in function and form, whether created by an individual or a multi-national conglomerate.

ACCOUNTING RECORDS AND THEIR SPECIAL APPRAISAL STANDARDS

The standards for the appraisal of accounting records consist of criteria common to all records and criteria peculiar to accounting records. When the archivist accections the records of his own organization, informational values are secondary to evidentiary or administrative, legal, and fiscal values; the more common, solicited deed-of-gift accession generally lacks any active evidential, administrative, or fiscal values, because informational values are the primary consideration. Accounting records must also be judged for:

- legibility and intelligibility
- completeness
- level of detail
- accounting function
- economic function
- volume

Of course, the value of any quantitative series is enhanced when complemented by textual record series such as correspondence, contracts, or minute books, but such situations are not common.

Physical quality is critical for quantitative records. Missing letters and words may be read in context to convey meaning; but illegible or obliterated numbers on damaged paper cannot be read in context. Many items cannot be reconstructed from the remaining figures. Any type of damage may compromise understanding and make nonsense out of figures and their columnar arrangement. In the transaction description of debit and credit entries in the journal or ledger, the clarity in the description is imperative. If the description is consistently illegible or only denotes "to account," "to sundry," or "to cash," only the volume's summary totals have much value. Unless an account book has significant value and high expected use, a volume with a broken spine or torn covers should not be rebound. Rather the binding should be removed, the pages protected in an acid-free folder, and control maintained bibliographically with the descriptive inventory.

A useful accounting series must be complete. The construction of long-term economic series, such as wages and prices, is an important application of accounting records. Completeness permits comparability over time. Fragmentary runs invite disposition when a substantive subsequent record in the accounting cycle is complete. This is especially true of entry documentation, records receipting or reporting cash, and subsidiary journals whose data may be summarized elsewhere. If the character of the series is unique, the fragment may be retained; and, hopefully, summary data from that series may be found in a subsequent series. In some instances, the data of a significant broken series may be sampled periodically and the balance destroyed. When the organization centralizes all data and summary information in the ledger, the archivist may elect carefully to destroy all entry documentation and journals in favor of an indexed ledger.

Appraisal must identify the same information at different levels of the accounting cycle and, in general, dispose of the redundant, more elementary format. To avoid needless duplication of information, the archivist should retrace sample entries from the ledger's index through the ledger to the journal and to the point of original entry. The preference for one level of data over another can be a function of the collecting policy. The potential uses for the materials play a strong role in acquisition. The historian of a corporation wants annual statements; the social historian wants specific informational data tying economic transactions to individual persons or groups. Some subsidiary account books, like a ledger for guano sales or a delinquency journal from a land and scrip company, lose their informational value when summarized in a ledger. Some forms of invoices or statements of account contain useful economic and social information which is lost during the recording into the journal. One manuscripts curator samples letterheads for their artifactual value and to identify accounts in the ledger. Many capital accounts which record the expenses to build and equip a business, are recorded in subsidiary account books and provide significant evidential information.

The accounting function of the record series may be facilitative; many accounting functions are merely housekeeping. They provide controls for the administration of a financial system without recording substantive information. The administrative control of cash and its internal transfer ultimately to the treasurer is one example. The recording of cash by receipt, cashbook or daybook, and check register are housekeeping chores.

Economic functions may be ranked in a hierarchy according to their ubiquity or rarity in the marketplace. The acquisition mandate of an archivist may limit him or her to collecting only the records of firms and organizations within a defined geographic territory, the records of a specific type of economic activity, such as the personal account books of doctors and pharmacies. A collecting policy should discriminate between analogous levels of economic activity: primary or extractive industries such as agriculture, lumbering, or mining; secondary or value-added production such as manufacturing; and tertiary including retail trade, services, and the services or rent of money. Small collections may reveal a slice of history, but a large collection of many years will reveal broader detail, more color, and a more reliable view. The archivist must respect his limited time, limited space, and limited means. He must accumulate accounting records selectively.

Evidential and informational values are predicated on a reasonable expectation of use. Few archivists can afford to allow account books or any other materials to sit unused on shelves. To this end, archivists should solicit accounting practitioners to assist with appraisal of fiscal records and

should aggressively promote the use of his record groups among potential researchers. One archivist invited an economics professor to evaluate the annual insurance company statements reported to the Georgia Comptroller-General. As a result, the professor's students used the statements extensively. For the needs of the instructor the archivist scheduled the out-of-state statements for destruction after twenty-five years, after all administrative uses were exhausted.⁵ Evidential values may document the genesis and evolution of a company's goods and services, the expansion of its market or wealth, or its relationship with classes of labor, suppliers, the public and regulatory agencies. Informational values may help to define a person, a family, another company, a charitable organization, or broad class distinctions. Accounting records are particularly beneficial for local and regional history. The historian of the urban frontier, Richard C. Wade, argues that, "a company's account book sometimes reveals economic pressures not intimately conveyed in larger statistics."⁶ Accounting records, justified for their informational values, must be utilized or their retention must be reconsidered.

Because the standard formats of accounting records demand proportionately less processing and reference time in relation to their increasing scale, volume should not frighten the archivist. One can with some adaptation impose limited, satisfactory bibliographic control over any collection. A brief, uniform inventory limited to record title, volume number, date span, and when necessary, a fragmentary description, will suffice to impose basic control and reference to the segments of a record group or collection. The volume of accounting records prevents a common degree of meticulous description for all parts or divisions of a collection. Sometimes, considerable labor must be expended in arrangement before the records can be appraised and selectively retained. From a preliminary inventory of sorted cards, time can be apportioned in priority between divisions and segments to be left untouched and those to be given detailed attention. Accounting records are of more value in the aggregate than for the information in particular documents. Lydia Lucas of the Minnesota Historical Society has written that, "The larger a collection, the more structured it tends to be, and therefore the more obvious the arrangement of its essential components."⁷

The subjectivity of the appraisal process may be ameliorated with the use of a two-part control form. This in-house document may be handwritten on a printed form. The inventory records basic data, as cited above, with space for any annotation. The second part consists of a few sentences evaluating the evidential, facilitative, or informational value of the record, and noting other significant characteristics, such as poor physical condition or the relationship of the records to other series. On some occasions, the archivist may hesitate to destroy a record but remains doubtful of its enduring value. The increasing costs of labor, space, and overhead must be weighed with cold brutality against the probabilities of use. One should remember that for unused records, appraisal is a recurring responsibility which re-evaluates the relative research worth versus the cost of retaining a series. In cases of such uncertainty the archivist may "red-line" the appraisal statement, shelve the record, and defer final judgement. Over several years, a tally should be made of patron use which can be monitored by marking the box each time it is pulled. Detailed analysis of how the records were used might be obtained by studying researcher application forms and subsequent call slips. After the use is measured, the series can be reappraised.

Accounting records are a specialized record form; they are voluminous and non-textual in quality, and their appraisal must be premised on unique

as well as traditional criteria. The archivist must understand the essential, theoretical framework of the accounting cycle and the five major record formats of accounting in order to appraise them judiciously. With a disproportionate amount of space required per unit of available information, one must weigh carefully the reasonable expectations of use for accounting materials. Even more important, archivists and historians must acknowledge their implicit preference for textual records. History-oriented individuals are often reluctant to exploit the values of quantitative records unless they can manipulate the data to reveal human foibles, travails, and conquests.

The thoughtful preservation of accounting records may in the end provide us with the resources to explore the premise that humans in general, and Americans in particular, have consistently revealed the best and worst of their character and aspirations through their economic behavior and in the creation and consumption of wealth, both as individuals and as corporate entities. To this end, we should recall the wisdom of the senior accountant that "the debits are next to the window." With a little more light and a little less mystery, accounting records will yield themselves and their contents to archival evaluation and research use.

NOTES

¹Edward M. Steel, T. Butler King of Georgia (Athens: University of Georgia Press, 1964).

Seymour Mandelbaum, Boss Tweed's New York (New York: Wiley, 1965).
Lewis Atherton, The Country Store (Bloomington: Indiana University Press, 1959); Main Street on the Middle Border (Bloomington: Indiana University Press, 1954).

Gene M. Gressley, Bankers and Cattlemen (New York: Alfred Knopf, Inc., 1967).

Robert W. Fogel, and Stanley Engerman, Time on the Cross: The Economics of American Negro Slavery (Boston: Little Brown, 1974).

²For a fuller discussion of accounting terms and types of entries, see John N. Myer, Understanding Financial Statements (New York: Mentor Press, 1964); Elwin W. Midgett, An Accounting Primer (New York: Mentor Press, 1969). Both are readable and articulate.

³Robert W. Lovett, "The Appraisal of Older Historical Records," American Archivist, 15 (1952): 233.

⁴Oliver Wendell Holmes, Describing Records, National Archives Staff Information Circular 25, rev. ed. (Washington, D.C.: National Archives, 1966), p.1.

⁵Conversation with J. Harmon Smith, Head of the Governmental Records Office, Georgia Department of Archives and History, October 10, 1979.

⁶Richard C. Wade, The Urban Frontier: Pioneer Life in Early Pittsburgh, Cincinnati, Lexington, Louisville, and St. Louis (Chicago: The University of Chicago Press, 1965), p. 344.

⁷Lydia Lucas, "Massive Collections: From Warehouse to Reading Room," Georgia Archive, 4 (Winter 1976): 61.