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FINANCIAL REPORTING AND STEWARDSHIP ACCOUNTING IN SIXTEENTH-CENTURY SPAIN

Abstract: This paper examines an early modern contribution to the literature on stewardship accounting, the *Tratado de Cuentas* or *Treatise on Accounts*, by Diego del Castillo, a sixteenth-century Spanish jurist.

Introduction

The delegation of authority and the stewardship function have been the subject of written comment for centuries. It is the intent of this paper to explore the accounting implications of an early modern contribution to this body of work, the *Tratado de Cuentas* or *Treatise on Accounts* written by Diego del Castillo, a sixteenth-century Spanish jurist. [Del Castillo, 1522].

Despite its preeminence in politics, commerce and culture during the sixteenth century, Spain lagged behind most other European powers in its contribution to the literature on double-entry book-keeping. Indeed, by 1590 when the first major native work on the subject — Solóranzo's *Libro de caja y manuel de cuentas* — appeared, Italian, German, Flemish, English, Dutch, French and Yugoslav books on the newest system already had a wide audience [Hernández Esteve, 1983, 139-40]. Although Spanish authors largely neglected the double-entry system for most of the sixteenth century, a number of indigenous works on pre double-entry techniques and other accounting usages appeared at this time. The earliest of these texts was the *Tratado de Cuentas*.

We know relatively little about the author of the *Treatise* other than a few biographical details. A native of Molina de Aragon in the province of Guadalajara, Diego del Castillo began the study of law in 1515 and acquired the doctorate six years later. He apparently returned at some time in his career to his native city to write, sending his completed manuscripts away to printers in various cities for publication. The date of his death is unknown, but it is thought to be around 1551 [Hernández Esteve, 1981, p. 108].

The Legal Profession In Spain

Three different kinds of lawyers serviced the Castilian legal system: the advocate or *abogado*; the attorney or *procurador*; and the solicitor or *solicitador*. As a law graduate or *letrado*, Del Castillo would have occupied the highest of these ranks, that of advocate. Legislation required advocates to have at least a baccalaureate degree; many, including Del Castillo, went beyond this requirement and obtained the *licenciado*, the higher degree in law. As we have seen, Del Castillo was also a doctor of law, a title which at this time was largely honorific, and which only a small minority of advocates possessed.

No major study has yet been conducted of the legal profession in early modern Spain, but it is known that advocates were responsible for researching cases and devising the legal arguments that formed the basis of their clients' suits. They also prepared briefs and argued cases in court. The royal courts in the major cities provided advocates with their most lucrative source of business. Nevertheless, advocates could also be found plying their trade in smaller provincial centers and villages. A willingness to practice in relatively minor courts may account for Del Castillo's long residence in the town of his birth.

Advocates derived their income from client fees and retainers. Spain in the sixteenth century was an extremely litigious society, and advocates as a class enjoyed considerable wealth. Many supplemented the income of their practices by serving as royal commissioners, seigneurial judges and, most importantly for our purpose, estate agents [Kagan, 1981, pp. 52-78]. Although Del Castillo makes no allusion to such experience in the *Treatise*, it is conceivable that tenure as an estate agent provided the original inspiration for his text on stewardship.

Del Castillo's Writing

The sixteenth century was not a period of intellectual specialization, and Del Castillo, like other writers of his age wrote on a variety of topics. Among his known works are a commentary on the Laws of Toro, *Las leyes de Toro glosadas*, first published in 1527; a manual for confessors (1522); two works condemning gambling (1557); and the present work, the *Tratado de Cuentas*.¹ The treatise was first published in the Spanish city of Burgos in 1522 when Del Castillo had already attained the licentiate. Two editions followed,

in 1542 and 1551, both published in Salamanca [García Lopez, 1899, pp. 59-63].

Diego del Castillo wrote the *Treatise on Accounts* in order to inform "tutors, guardians, chamberlains, treasurers and anyone else responsible for administering another's goods" [Del Castillo, 1522, f. 1v] of how to render a proper account. The stewardship function was a popular theme in the accounting literature of early modern Spain. Over the course of the sixteenth century, a large number of other legal writers in addition to Del Castillo discussed, albeit briefly, various aspects of the agent-principal relationship, such as the duty to keep accounts [Hernández Esteve et al., 1981, VII, 2-8,9]. The lengthiest and most complete treatment of stewardship from both a legal and accounting perspective appeared in 1603, *De ratiociniis administratorum et aliis variis computationibus tractatus* by Francisco Muñoz de Escobar, a magistrate of the Chancilleria of Valladolid.² Muñoz de Escobar, in the dedication to his book, claimed inspiration for his work from two sources: his reading of Del Castillo's earlier and much shorter tract and also the interest the Emperor Charles V himself expressed in a full-length treatment of the subject [Hernández Esteve, 1981, p. 92]. Although we may question just how genuine an interest the sovereign actually expressed in this issue, the stewardship function was sufficiently important in and of itself in early modern Spain to warrant special consideration by learned jurists.

Estate Management In Spain

Land at this time was the principal source of wealth, and most of it was concentrated in the hands of the upper aristocracy. Indeed, this immensely wealthy class, which constituted somewhere around 2 to 3 percent of the population, controlled approximately 97 percent of the land of Castile; in the late fifteenth century they added to their already sizeable holdings large portions of the newly conquered kingdom of Grenada. [Elliott, 1963; Lynch, 1964]. In order to administer these vast, oftentimes geographically disparate, tracts it became necessary to delegate oversight of agricultural operations and other kinds of business affairs to various types of managers or agents, called generically *administradores*. These administrators were legally required to communicate the results of operations to their employers or patrons and for this purpose used accounts and books of accounts.

The particular social, economic and political conditions of the

time also created other managerial opportunities, but those agents who sought to take advantage of them were, according to Del Castillo, subject to the same kind of financial reporting requirements as the administrators of agricultural holdings. The Church at this time was a sizeable landholder in its own right and employed administrators in much the same way as the secular nobility, to oversee the farming and other business operations of churches, monasteries and hospitals. Although agriculture remained the principal economic activity, the internal and international trade of Castile expanded considerably during the late fifteenth and sixteenth centuries [Elliott, 1963; Lynch, 1964], and in this area agency relationships developed as well. In cases where several individuals pooled their resources to form a trading company, it was common for them to designate one of their number as a kind of managing partner to handle the company's dealings and trade on behalf of the investment group. As in other agency relationships, the managing partner was obligated to give an account, in this case to his *compañeros*, of all that he had "gainfully received and of what he gave, paid, distributed, spent and lost." [Del Castillo, 1522, f. 4r]. City administrators, collectors of royal taxes, executors of wills and guardians of minor children labored under similar reporting requirements.

The "Treatise"

It was this audience, then, of "tutors, caretakers, . . . majordomos, receivers, trustees, almoners, rectors, treasurers, governors," and other administrators whom Del Castillo addressed in his treatise. [Del Castillo, 1522, f. 4r]. As a jurist, it was Del Castillo's purpose to advise agents of their legal responsibilities in the area of financial reporting. He also sought to convince his audience of the importance of careful recordkeeping to winning them a clean discharge at the conclusion of their commissions.

The *Treatise* is divided into fourteen parts and a prologue addressed to the Emperor. In part one (see Figure 1) the author defines the term account, called *cuenta* or *razon* in Castilian. In parts two through six he discusses who is required to keep and exhibit accounts, to whom the accounts are to be presented, the manner of presentation, the place and the intervals at which an administrator is in general required to surrender his books. Part seven treats the proper arrangement of an account book. Part eight discusses how it is that accounts are accepted as proof of the financial realities they purport to represent. After a general discussion of the

Figure 1. A Folio from Part One of the *Treatise*; the introduction to Part Two is also shown.

Parte primera.

otra diffinicion mas conuenible a nuestro caso.
EY digo q̄ la cuenta y razón/
 ministrador: es vna memoria
 Porq̄ de lo q̄ rescibe/ tiene de
 memoria. y así mismo de lo q̄ r
 cadres y personas q̄ tiene
 assientan en sus libros: en vna
 en otra parte lo q̄ dan. Y qual
 cuētas con otros: entrā por dar
 tros assietā en vna plana: lo q̄ deue: y
 na: lo q̄ deue de auer. y quādo hazen cuenta: en
 trā con deue. y deue auer. **O**tros contadores/
 entrā por cargo y descargo: haziēdo cargo al ad
 ministrador de todo lo que rescibio. y rescibiēdo
 le en descargo: todo lo q̄ dio y gasto. **E**Y qualq̄
 ra d̄stas maneras de assentar y contar: son bastā
 tes para salir con la cuenta: mas las dos prime
 ras parecē mejores. y la postrera algo grossera:
 por entrar por cargo y descargo. **E**Y porq̄ arri
 ba se nombra cuenta/o razón: y algunos podriā
 pēsar que son diuersas. digo que en derecho en
 tre cuenta y razón no se haze diferencia. **Y** an
 si podemos saber que cosa es cuenta.

Quanto a la segunda par
 te en que diximos/ quiē son obligados
 a dar cuenta. digo que si vno m̄do / a
 otro en su testamēto: por manda/o herencia/ to
 dos sus bienes: y que/a cierto tiempo los restitu
 yesse/a otro: sera obligado el q̄ primero fue insti
 tuyendo: de dar cuēta de los bienes q̄ q̄daron/ d̄l d̄
 cho testador. **E**Y tē los tutores/ y curadores/ de

*Rescibe. d. Bal. in
 rub. s. fl. in sic. C. vj.
 col. s. reuertor ad
 primum.*

*Diferēcia. c. C. Glo.
 in. c. cum dilectus de
 fide instr.*

*Testador. s. C. Tex.
 et glo. in. l. cum tale
 in parte nō interpo
 sendo in. s. ticius. ff.
 de con. et demo.*

agent's responsibilities in the ninth section, Del Castillo devotes parts ten, eleven, twelve and thirteen to the procedures to be invoked if errors or shortages are detected in the accounts; and part fourteen to the various legal documents that must accompany accounts submitted to the courts for probate.

To begin his treatise, Del Castillo discusses a number of current opinions on the nature of an account. In its simplest form, the account constituted a confirmation, *confirmacio*, of a financial transaction. It could also be seen as an accounting entity proceeding from higher intellectual causes, as a movement or motion of the will, or of the mind, "showing what has been received and in what manner expenditure or payment is given." [Del Castillo, 1522, f. 3r]. As might be expected, Del Castillo himself preferred a more juridical formulation. He saw the account as fulfilling the same purpose in stewardship as did a witness' testimony in a court case, serving to separate the "truth of what is received and justly spent from the false." [Del Castillo, 1522, f. 6v]. However defined, the account was in the author's view the most important formal bond between the administrator and his principal. The presentation of a properly compiled set of accounts was as much a responsibility of the administrator's office as discharging the principal's financial affairs.

What constituted, then, a properly compiled set of accounts? First, there was the matter of physical arrangement. The book of accounts or *libro de cuentas* was to contain written entries describing "all that the administrator received," whether from his principal or other sources, and "all that he gave," [Del Castillo, 1522, ff. 10v-11r]. A single volume containing both receipts and expenditures was the preferred arrangement although it was also acceptable to set down receipts or *el recibio* in one book and expenditures or *la dacta* in another. Del Castillo advocated the use of a single volume because it was commonly believed that the two-volume approach invited errors and irregularities.

As for the content of entries, agents were advised to record in addition to monetary values such details as the date of the transaction, the proper name of the other party, the place the business was transacted, the circumstances that gave rise to the transaction and any other details likely to lend credence to the agent's records. Del Castillo made the "all-inclusive" approach a requirement for expenditures but optional for receipts, perhaps under the impression that an agent was more likely to be questioned concerning outflows than inflows.

These comments are about as far as the author goes in his discussion of bookkeeping methods. Remember that Del Castillo did not intend to educate readers in current principles of bookkeeping or of any accounting system but rather to discuss financial reporting requirements and procedures. Accordingly, we learn little from the *Treatise* concerning such matters as the system of bookkeeping entries in use at this time or the relationship between journals, ledger and other books of account. Nor is it clear, despite the author's attempt at definition, precisely what is meant by the term "account." Certainly, Del Castillo gives a good idea of the kind of information to be recorded, but the form of the accounting entity remains obscure. Despite this obscurity, it is safe to conclude that the type of bookkeeping Del Castillo had in mind was one of the several forms of single entry then in use rather than full-blown double entry. The method as alluded to in the *Treatise* consists entirely of receipts and expenditures with no differentiation between nominal and real accounts. The *Treatise* also makes no mention of an account book auxiliary to an original book of entry. External evidence also supports the conclusion of single entry. As we have seen, explicit discussion of double-entry bookkeeping did not enter Spanish accounting literature until relatively late in the century. Moreover, according to Henri Lapeyre, the first known use of the system in Spanish account books dates from the years 1551-54 [Hernández Esteve, 1981, p. 153] although further research in Spanish archives may eventually uncover earlier appearances. Based on the characteristics mentioned above, the particular form of single entry envisioned in the *Treatise* was probable *cargo y data*, a bookkeeping method common at the time.

Reports and Audits

In normal circumstances the administrator exhibited his book of receipts and expenditures at the end of each year. Reporting periods shorter or longer were also permitted as long as the interval received the agreement of both parties. Whatever the length of the reporting period, the administrator could not be compelled to exhibit his accounts prior to the reporting date unless he "should make himself suspicious" by dissipating his own goods or worse yet, flagrantly mismanaging those of his principal or "señor." [Del Castillo, 1522, f. 9r].

Although protected from unscheduled intrusions, the administrator still labored under an absolute obligation to present his books

for inspection at the required intervals. Indeed, the administrator was required to give his patron "all the writings that pertained to the administration" or face a lawsuit. [Del Castillo, 1522, f. 9r]. Under certain circumstances, this responsibility could continue long after the delegation of authority had ostensibly ended. For example, in cases where the administrator had not reported at the conclusion of his commission, his obligation to make an accounting remained intact for 30 years, 40 years if he had administered a church or monastery.

The agent's records as exhibited were subject to audit in a court of law. By the sixteenth century an array of local, municipal, ecclesiastical and royal tribunals had grown up to administer Castilian law, and among their functions was the probate of accounts. Del Castillo neglects to specify at which level of the judicial hierarchy or in which type of tribunal the examination was to be conducted, but he does stipulate that the court of first instance possess jurisdiction over the geographical area in which the administration was originally held. In practice, this stipulation would generally not have constituted much of a restriction. Jurisdictions at this time often overlapped, and courts actively competed for cases with the result that litigants in most cases enjoyed a choice of tribunals [Kagan, 1981, pp. 32-33.]

It is unclear from the *Treatise* whether the administrators who served in an ongoing capacity were required to have their accounts judicially reviewed every reporting period or whether a full-scale investigation took place only at the conclusion of an administrator's tenure. In any case, probate of the accounts was conducted by accountants or *contadores* who were charged by the court to "do the accounts well and loyally" and "to guard and watch equally the rights of each of the parties without inclination." [Del Castillo, 1522, f. 8v]. In order to assure this impartiality, the investigation was conducted by a committee of auditors named by both parties. If either employer or administrator was unable or unwilling to nominate individuals to this panel, the judge was empowered to make such nominations himself.

Accountants were attached as a matter of course to tribunals at most levels of the judicial hierarchy along with magistrates, scribes, constables, porters, receivers and other court officials. Typically for court officials, they bought their offices and were unsalaried, subsisting on the official fees, bribes and gifts that litigants paid for their services. The particular functions of court accountants are somewhat more obscure. It is clear, however, that they were in-

volved in some way in producing the permanent written records of court actions required by Castilian law [Kagan, 1981, pp. 37-39]. To this general responsibility, the treatise adds the audit of agential records.

The *Treatise* reveals little about the actual audit process, but Del Castillo does give some idea as to audit objectives and procedures. The auditor's chief responsibility was the detection of fraud: to "investigate the truth of what is received and justly spent." This assessment was to be based on the information contained in the agent's records and on the opportunity to question both agent and employer in person should the need arise. The auditors were to ascertain, among other items, that receipts and expenditures were recorded in their entirety, and that counts and appraisals had been conducted in an orderly fashion and were neither "too high nor too low." [Del Castillo, 1522, f. 7v]. It is at this point that an agent would begin fully to appreciate Del Castillo's earlier admonitions concerning the importance of detailed records. Thrust into the position of having to persuade the court through its accountants of the honesty — and effectiveness — of his administration, the agent's chief support was a properly maintained book of accounts. To believe Del Castillo, any administrator whose book was incomplete or contained discrepancies fell automatically under suspicion of fraud.

Should the court determine as a result of its examination that the agent had withheld or diverted goods or revenues unjustly, the administrator was required to make good any shortages of funds. Double damages could also be imposed. For the truly recalcitrant administrator, unable or unwilling to make restitution on demand, Del Castillo recommended incarceration.

Although the detection of fraud and other irregularities constituted the chief focus of the court's concern, plain mismanagement or honest errors if discovered were also penalized. Indeed, Del Castillo makes little distinction among the possible causes of a shortage — whatever the circumstances the principal was to be indemnified. The agent was not entirely without recourse, however. If during the course of the examination errors were discovered in the accounts, the administrator could request that his records be reviewed a second time and another count made. This second examination was to be conducted by two new auditors, one named by each party or by the judge should either or both parties demur.

Additional protection was afforded by the segregation of duties within the judicial process. While it was the responsibility of the

auditor "to appraise or investigate," [Del Castillo, 1522, f. 23r] only the judge could sentence, or formally render the court's opinion on the performance of the administration. Procedure required that the judge subject the accounts to a final review before proceeding to sentence, and the administrator could hope that the judge might catch an item that the accountants had wrongly rejected or misinterpreted. Unfortunately, it was equally as likely that the judge would find against the administrator, observing that "the accountants had approved something that they were unable to pass justly." [Del Castillo, 1522, f. 23v].

The Administrator As Agent

Del Castillo makes it plain that the administrator who exceeded the bounds of his authority, either by accident or design, courted financial or other forms of retribution at the time of probate. To help the administrator avoid such an outcome, the author outlines in general terms some of the rights and responsibilities inherent in the agent's office. First, the agent was empowered to disburse funds on the order of either principal or law court, and to the principal's creditors. He was also able to pay himself a salary from the goods and funds he administered, and to receive reimbursement for any expenses he had incurred in the execution of his duties. The administrator was obligated to sell or otherwise transfer the perishable goods in his charge before they spoiled, or indemnify the principal for their loss. He was also required to submit to arbitration any disputes that might arise in the conduct of the principal's business affairs. Collection of notes receivable was another common responsibility.

Notwithstanding the large amount of effort the author devotes to haranguing agents on the proper conduct of their duties, and the penalties awaiting them should they err, he concedes, albeit reluctantly, that an administrator might suffer financial loss unjustly at the hands of his principal. Such a situation could occur, for example, if the principal failed to reimburse his administrator for expenses incurred in the execution of the administration. Armed with the evidence contained in his book of accounts and the auditors' opinion, the administrator could theoretically demand restitution from his principal, but Del Castillo neglects to explore this possibility, a result entirely to be expected by this point in the *Treatise*.

The author's sympathies in favor of the principal reveal themselves early in the tract. Although ostensibly a guide to steward-

ship accounting and financial reporting, the *Treatise* is also something of a moral diatribe in which the author seeks to dissuade his audience from engaging in disreputable practices, practices which in Del Castillo's mind were entirely synonymous with injury to the patron's interests. Del Castillo never ceased to believe that the typical administrator was shifty and dishonest by nature and in need of such exhortation. In his opinion,

many officials and administrators are wolves, robbers and dogs who with inordinate tricks and deceits treat their patrons like beheaded sheep and drink their blood. And many times they don't content themselves with the blood but also eat the meat right to the bone . . . and you can find rich administrators who shortly before had no goods whatsoever and poor patrons, broke and much in debt . . . the reason is that money blinds administrators, making them covet as their own what belongs to another. [Del Castillo, 1522, f. 13v]

Conclusion

The author's prejudices aside, the *Tratado de Cuentas* is important to the study of accounting history. As far as we know, it is the first work of accounting literature written in Spanish, and from a legal perspective. Moreover, the *Treatise* explores some of the fundamental principles of accounting. It discusses, among other topics, the nature of the account, the preparation of accounting information in accordance with uniform principles and procedures, and the attest function. It also adds to our knowledge of the role of the accountant in early modern government, a role which in terms of accounting history is still largely unexplored.

FOOTNOTES

¹Notwithstanding what the eclecticism of the age might lead us to believe, Del Castillo is not the author of the *Tractatus de Duello*. This treatise is often ascribed to him, but it is actually the work of another Del Castillo, Diego del Castillo de Villasante. Their identities have been admirably disentangled by the Spanish scholar García Lopez in his short biography of Del Castillo. [García Lopez, 1899, p. 58].

²For further information on Muñoz de Escobar, see Pierre Jouanique, "La vie et l'oeuvre de Francisco Muñoz de Escobar," *Revue belge de la comptabilité*, (numbers 3 and 4, 1965; numbers 1 and 2, 1966).

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