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Accounting procedures and techniques in the late eighteen hundreds

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ACCOUNTING PROCEDURES AND TECHNIQUES IN THE LATE EIGHTEEN HUNDREDS

by

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INTRODUCTION

Upon browsing through a stack of books at a used book sale, I came upon the New Bryant & Stratton Counting-House Book-Keeping, copyright 1878. Out of curiosity, I purchased this book and placed it on my bookshelf for future reference.

The textbook was written by Silas Packard for use in the curriculum of the chain of Bryant and Stratton Business Colleges. It was a revision of Bryant and Stratton's Counting-House Book-Keeping, first published in 1863. The curriculum of the college was designed to educate students in the field of Office Practices. Science of Accounts was the title of the core program, which included the following courses: bookkeeping, business law, commercial arithmetic, practical penmanship, and business correspondence (Quinney).

I would like to share my findings on the accounting procedures and techniques used to instruct students of that period. In so doing, I will present a problem illustrating the accounting methods utilized at that time. It will be shown that certain procedures then in use differ substantially from those required by current Generally Accepted Accounting Principles (GAAP).

Pedagogical Approach

Packard stated the object of his book as follows: "The aim has been to make thoughtful and intelligent book-keepers, rather than routing clerks; to have each step so clearly the expression of an idea that the interest once awakened will not grow lax, but rather increase to the end."

He gave four reasons to justify why business records should be maintained: (1) to provide an interesting and instructive history of the business, (2) to promote order and exactness, (3) to maintain control over business operations, and (4) to provide a satisfactory means for determining the financial condition of the business.

A Procedural Approach Presents the Application

Chapter four, entitled *Business Record*, is the focal point of the entire textbook, because the topics of double-entry bookkeeping and "basic" record-keeping are covered. Following is a description of each step in the accounting cycle as outlined in the chapter.

Day-Book

The Day-Book is a chronological listing of transactions, explaining in narrative form, the specifics of each. An example of a typical entry in the Day-Book is as follows:

Date	Record of Transaction	Consideration	
June 1	Sold H. M. Brown for Cash:		
	100 Brls. Flour @12.50	1250.00	
	50 Bush. Wheat @2.25	112.50	1362.50

Journal

The journal that is illustrated in this chapter is in the form of a General Journal. However, in later chapters, more complex record-keeping procedures are introduced. The transactions are taken directly from the Day-Book and recorded in debit and credit form in the journal. Packard described two types of transactions. The first type, called **business** transactions, were "those which affect the progress of the business, having in them the elements of gain or loss." The second type, called transactions of **convenience**, were "those which simply change the personnel of the resources or liabilities without adding to or taking from the net worth."

In regards to recording entries in debit and credit form, it is interesting to note that Packard believed that it was significant only to record entries for Personal Accounts (Accounts Receivable and Accounts Payable) in this manner. However, he stated that for all other accounts, the recording of transactions in debit and credit form had been established by custom, and thereafter became the rule.

Ledger of Accounts

The type of account used in the textbook is in the form of a two-column account, with the debit entries entered on the left-hand side and the credit entries entered on the right-hand side.

Accounts are of two classifications. The first class was the **Business** accounts "which represent the earning activities of the business...and exhibit the separate gains and losses." The second class were the **Finance** accounts which measure the worth of the business and "contain such of the resources and liabilities as can be shown in a continuous record."

Financial Statements

Two statements are presented. The **Business Statement** illustrates the individual gains and losses, along with the Net Gain or Net Loss. The items in this statement originate from either separate entries recorded during the accounting period, or revaluation of certain account balances at the end of the accounting period.

The **Financial Statement** presents the Resources and Liabilities of the business. The Resources (Assets) include the following accounts:

1. Merchandise.
2. Real Estate.
3. Cash on Hand.
4. Personal Credits:
   a. Open Accounts: include Accounts Receivables and amounts on deposit with financial institutions (checking and savings accounts).
   b. Bills Receivable: written promises made to the company in the form of notes or drafts.
5. Claims: investments in corporate securities.

The Liabilities include the following accounts:

1. Open Accounts: Accounts Payable.
2. Bills Payable: written promises made by the company in the form of notes or drafts.
3. Stock (Owner's Equity or Net Worth): although Packard defines Net Worth as the difference between Resources and Liabilities, he makes the point that the equity of the owner is a liability because the business is obligated to the owner for this amount. He does mention that it is proper to make a distinction between outside liabilities and the obligation to the owner because the net worth "exactly covers the difference between the resources of the business and the liabilities to outside parties."

Included with the statements is a separate **"Corroboration"** which presents a reconciliation of the Net Worth for the Accounting period.

Illustrative Problem

Chapter Four presents a problem which illustrates the steps taken in the Accounting Cycle. Following is a reconstruction of that problem.

The first step is the recording of the transactions:

April 1–Record beginning balances for the month of April.

	DEBIT	CREDIT
Merchandise	2150	
Real Estate	10000	
Cash (on Hand)	2500	
Commercial Bank (on Deposit)	3500	
Accounts Receivable:		
Samuel Smith	700	
James Parker	500	
Bills Receivable (6%, issued April 1)	300	
Claims-New York Central Railroad Co. Stock	4500	
Accounts Payable:		
Robert Johnson		725
Bills Payable		1375
Stock (Owner's Equity)		22050
TOTALS	24150	24150

April 2–Sold merchandise for $1314 cash.

Cash	1314.00	
Merchandise		1314.00

April 3–Paid $143.75 cash for office supplies.

Expense	143.75	
Cash		143.75

April 4–Received $700 cash on account from Samuel Smith.

Cash	700.00	
Samuel Smith		700.00

April 5–Sold merchandise for $176 on credit to A. Wakeman.

A. Wakeman	176.00	
Merchandise		176.00

April 8–Received $300 cash for the service of purchasing and shipping goods to a customer.

Cash	300.00	
Commission		300.00

April 15–Paid $25 cash for the clerks' wages.

Expense	25.00	
Cash		25.00

April 20–Paid Bills Payable 54 days in advance of due date-June 13, $1362.62 cash.

Bills Payable	1375.00	
Cash		1362.62
Interest		12.38

April 24–Received $175 cash for rent of real estate.

Cash	175.00	
Real Estate		175.00

April 27–Issued check for $150 for property taxes on real estate.

Real Estate	150.00	
Commercial Bank		150.00

April 29–Received $301.40 representing principal and interest on outstanding Bills Receivable.

Cash	301.40	
Bills Receivable		300.00
Interest		1.40

April 30–Deposit $3500 of cash in Commercial Bank account.

Commercial Bank	3500.00	
Cash		3500.00

The next step is the preparation of the Trial Balance.

Trial Balance - April 30

	DEBIT	CREDIT
Merchandise	660.00	
Real Estate	9975.00	
Cash (on Hand)	259.03	
Commercial Bank (on Deposit)	6850.00	
Accounts Receivable:		
James Parker	500.00	
A. Wakeman	176.00	
Claims-New York Central Railroad Co. Stock	4500.00	
Accounts Payable:		
Robert Johnson		725.00
Stock (Owner's Equity)		22050.00
Commission		300.00
Interest		13.78
Expense	168.75	
TOTALS	23088.78	23088.78

From the Trial Balance, Adjustments are prepared.

Adjustments - April 30

			DEBIT	CREDIT
1. Merchandise:				
Returns from Sales	1490			
Estimated value of unsold goods	700	2190		
Less:				
Beginning Balance		2150		
Gain		40		
Merchandise			40	
Gain				40
2. Real Estate:				
Returns from rent	175			
Estimated value of property	10000	10075		
Less:				
Property Tax	150			
Beginning Balance	10000	10050		
Gain		25		
Real Estate			25	
Gain				25
3. New York Central R.R. Stock:				
Estimated value of stock		4950		
Less: Beginning Balance		4500		
Gain		450		
Claims-New York Central R.R. Stock			450	
Gain				450

The final step illustrated is the preparation of the financial statements as presented below:

Business Statement
For the Month Ended April 30

	Losses	Gains
Merchandise		40.00
Real Estate		25.00
New York Central R.R. Stock		450.00
Expense	168.75	
Commission		300.00
Interest		13.78
Net Gain	660.03	
	828.78	828.78

Financial Statement
April 30

	Resources	Liabilities
Property From Estimates:		
Merchandise	70700.00	
Real Estate	10000.00	
Railroad Stock	4950.00	
From Ledger Accounts:		
Cash	259.03	
Commercial Bank	6850.00	
James Parker	500.00	
A. Wakeman	176.00	
Robert Johnson		725.00
Net Worth:		22710.03
	23435.03	23435.03

Corroboration

Net Worth at beginning (as per Stock Account)	22050.00
Net Gain (as per Business Statement)	660.03
Net Worth at the close (as per Financial Stmt.)	22710.03

Conclusion

The accounting for Merchandise, Real Estate, and New York Central R.R. Stock reflects the effects of changes in current costs. However, the gains are reported as recognized and not unrealized as they would have been under current GAAP. In determining a current value for the above items, Packard gives the following explanation. "In placing a value upon property, for the mere purpose of

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placed on financial statements, as if they were the only thing the accountant produced, neglecting the value of and the contributions made by accounting records (Foreign Corrupt Practices Act being a notable exception). We must realize and let the public know that accounting is built on comprehensive records of what happened in the past. The economy may suffer somewhat without financial statements, but should there be a blackout on accounting records, the whole economy will collapse in a matter of weeks, if not days, as no business can survive long without accurate accounting records. Lack of records will also let irresponsible behavior proliferate, quickly destroying the fabric of the economy. Mismanagement and fraud would not have been discovered in the first place without accounting records. We should let the public know that the fundamental contribution of accounting lies in records and not in reports.

5. **Speculation Fever, Again:** The first Chief Accountant of the Securities and Exchange Commission, Carman Blough, stated that "the speculation fever had become so great in 1929 that it is very questionable whether any amount of information about the corporation would have affected the way the general public would have bought and sold its stock, yet many turned to the inadequacy of the financial data as a scapegoat on which to blame their losses and to vent their angers and frustrations." ("Early Development of Accounting Standards and Principles," in W.W. Cooper and Y. Ijiri, eds., *Eric Louis Kohler: Accounting's Man of Principles*, Reston, 1979). The same thing seems to be happening in the recent litigation crisis arising out of the debacle of savings and loans institutions, only this time as a scapegoat for the industry-wide catastrophic losses.

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Legislation limiting auditors' liabilities seems to be the most important issue in the short run, but for the long run, we must do a better job of getting the nature of accounting and auditing understood by the public. I hope that at this conference held 25 years from now, we will be able to speak with a more positive and constructive tone about the future of accountants by building accounting on the solid base of historical records. ❑

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Procedures: continued from page 16

rating it, reference should be had, of course, to the market rate, or what might be obtained in exchange were the property offered for sale. In articles of merchandise–and particularly staple goods–this estimate is easily made, from quotations and general knowledge of sales; but in special property, such as real estate and things–on whatever basis made–must be, in a peculiar sense, arbitrary."

These accounts are also of interest because of the type of transactions included in their balances. For example, the Merchandise account is credited for the sale of merchandise as opposed to a revenue account. The Real Estate account is credited when rent is earned, and debited when property taxes are paid. If dividends would have been earned on the New York Central R.R. Stock, this account would have been credited in place of a revenue account.

The treatment of the Expense account that appears on the Business Statement is explained by Packard as follows: "..why not at once charge the amount in the Merchandise account, which represents this business? There would be no real objection to this, except that inasmuch as we have some other interests, a certain proportion of the expenses should be shared by these interests. What that proportion is, it may be difficult to say' hence, for convenience sake we open this separate account, leaving what seems to be an absolute loss here to be offset by an excessive gain in the other accounts."

The accounting treatment illustrated above is based on the philosophy developed by Packard in Chapter Three, entitled *Business*. He believed that wealth was primarily acquired through the activities of labor, rent, and exchange (gift and circumstance were also considered). Four of the activities are illustrated in the illustrative problem:

1. Labor: earning of commissions from purchasing and shipping goods to a customer.
2. Rent: earning of rent on real estate and interest on loans.
3. Exchange: sale of merchandise.
4. Circumstance: appreciation or depreciation of property in the firm's possession.

As a result of this philosophy, the impact of each activity is shown directly in the account affected.

If current GAAP were used to complete the illustrative problem (assuming all Office Supplies were used, and the entry of April 20th is treated as an early extinguishment of debt), the results of operations would have been a Net Income of $310.03, and total assets would have been $23,085.03.

References

Packard, S. S., and Bryant, H. B. *The New Bryant & Stratton Counting-House Book-Keeping*, Ivison, Blakeman, Taylor & Co., New York and Chicago, 1878.

Quinney, Valerie, *Bryant College: the First 125 Years*, Bryant College, Smithfield, RI, 1988.

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CONFERENCES, PERIODICALS, AND THINGS

FOR YOUR INFORMATION

Several events are scheduled during the year of which you may have interest. Although *The Notebook* may be of limited help because of the timing of publication and the event, items presented herein are presented for your information.

The Centre of Accounting Research and Education at the University of Waterloo will host an audit symposium at the University in November, 1993. The Conference is sponsored by the Clarkson Gordon Foundation and co-sponsored by the Auditing Section of the American Accounting Association. Information about the details of the symposium may be obtained from Professor W. Morley Lemon or Professor Gordon D. Richardson, University of Waterloo, (519) 885-1211.

A CALL FOR PAPERS

The *Chinese Accounting Review* seeks manuscripts of quality research and development on a variety of current topics in accounting. The acceptable topics include international accounting and accounting education. *The Review* is an annual publication which emphasizes quality theoretical and applied research in accounting and related areas.

Manuscripts may be in English or Chinese. Three copies should be submitted, double-spaced, one-sided, and follow the format of *The Chinese Accounting Review*. The author to whom communications should be made should be indicated on the cover or title page. Papers are submitted to blind review. To submit a manuscript or to obtain additional information, contact: Editor, *The Chinese Accounting Review*, P.O. Box 1-444, Wenshan, Taipei, Taiwan, R.O.C.

DECISION SCIENCES INSTITUTE ANNUAL MEETING

The Decision Sciences Institute will present its 24th Annual Meeting in Washington, D.C., on November 21-23, 1993. An invitation for accounting papers was issued, but unfortunately, the submission date was March 1, 1993. Accounting research papers in a wide range of topics, including accounting history, theory, auditing, taxation, not for profit, governmental, international, financial, information systems, and others, are expected to be presented. For information, call James R. Evans, University of Cincinnati, (513) 556-7140.

INTERFACE

INTERFACE will host its Eighteenth Annual Humanities and Technology conference in Atlanta, Georgia on October 21-23, 1993 at the Penta Hotel. Although a wide range of topics are accepted, "Technology & Multimedia" and "Multicultural & Intercultural Issues and Technology" are topics to be emphasized. INTERFACE brings together professionals from many fields such as engineering, technology, computer science, history, literature, and physics for purposes of discussing issues that cross traditional disciplinary boundaries.

FSA PROCEEDINGS AVAILABLE

The Federation of Schools of Accountancy held its sixteenth annual meeting in December, 1992, in New Orleans. Its theme was "Joining Forces: A Partnership to Educate Our Profession." Featured speakers included Gerry Polansky, Dennis Beresford, and William Shenkir. Sessions included discussion regarding roles of industry, accreditors, state societies, and public accounting in accounting education. In addition, the place of liberal arts, technology, and general education in the curriculum was examined. *Proceedings of the Annual Meeting, 1992*, sponsored by FSA Supporting Associate, Price Waterhouse, will be available in the Spring, 1993, through the FSA Administrative Office, DePaul University, 25 E. Jackson Blvd., Chicago, IL 60604.