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John R. Palmer

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The Revolution Was Not in Accounting

by JOHN R. PALMER/Research Associate, National Association of Accountants

In this bicentennial year, volumes seem to have been written about all aspects of life in colonial America except one—its accounting. The reason may be that no new developments in the art of accounting took place in America 200 years ago to interest historians.

But the fact is that even if colonial America had little influence on accounting, accounting was an important factor in the life of the eighteenth century. Fortunately, the account books of colonial American businessmen, ranging from its rich and powerful citizens to obscure country merchants, still exist and provide a clear insight into the

commerce and life styles of the period.

The accounts of Ben Franklin's print shop—and the audit done prior to its sale by the first recorded American "public accountant"—have been preserved. The meticulous and voluminous accounts of George Washington's expenses, not only as commander-in-chief of the Continental Army but also as a leading planter, land speculator, and businessman, reveal new insights about the "father of our country."

As an impoverished American government conducted an expensive war against the leading

superpower of the eighteenth century, accounting records show behind-the-scenes problems never mentioned in chronicles of battles and troop movements. One of the great leaders of the Revolution was Robert Morris, a Philadelphia merchant and financier who never fought in a battle but who handled the accounts that financed the rations, uniforms, and weapons of victory.

On the technical side, colonial accounting bore many similarities to modern accounting, but more interesting are the differences. The two best-known and most widely used accounting documents today

are the balance sheet and income statement. Neither of these forms existed in colonial America or anywhere else in the eighteenth century.

Essentially, the corporation as a business form did not exist under British rule between 1719 and 1825—a result of the “Bubble Act” passed by the parliament requiring personal approval by the king of any such venture. Owning a colonial business required either an independent entrepreneur or a partnership. Thus the public reporting of modern corporations was totally unknown. Nor were taxes levied on sales or earnings of businesses, which meant today’s reporting requirements to the government were also unknown. As a result, the books that were kept in colonial America existed solely to aid the owner in the conduct of his business.

The three principal books kept by colonial businessmen were the waste book, the journal, and the ledger. Original entries were placed roughly but in detail in the waste book by the merchant’s servant, wife, or whoever made the transaction. These entries were then repeated in the journal, separating the debits from the credits. This was written in the “fine hand” of the merchant. Finally, journal entries were written up in individual accounts in the ledger. As debts were paid, they were lightly crossed out in the ledger, and the date of payment was added.

Subsidiary books were also kept to record cash transactions, expenditures, hours worked, and other accounts appropriate to a particular business. These books were posted directly to the ledger. No “generally accepted accounting principles” existed. Since the books were kept solely for the convenience of the owner/manager, they were unaudited.

Periodicity did not exist. The most common reasons for balancing an account were the completion of a ledger book, death of the merchant, or sale of the business. Errors were commonplace and seldom

were corrected.

The essence of business 200 years ago was barter and credit, according to account books of the time. Barter was used because of a shortage of money in the colonies. By British regulation, no coins could be minted in America, and by policy the balance of trade was always in favor of England, causing an outflow of whatever money there was.

Barter was convenient in small rural communities where people’s needs complemented one another. But it was also appropriate for the large cities, since merchants could know their customers in a colonial Philadelphia which had but 40,000 residents, or a New York, which had 20,000.

Barter did not usually take the form of simultaneous swapping. Instead, it was “bookkeeping barter,” where the first half of a transaction created a debit on the books of the recipient and a credit on the books of the giver. It would be paid later by receiving goods directly, since the accounts were a jumble of goods and services on both sides. Small farmers and tradesmen, whose modern-day counterparts have no knowledge of accounting, thus needed to have some inkling of double-entry bookkeeping in order to participate in the colonial business system. Naturally, this bookkeeping barter facilitated credit transfers between individuals, so that notes payable to order became a private type of paper money.

In addition to such private paper money, a mass of public paper money was issued by each state as well as under federal auspices. This money was printed originally because of the shortage of specie, or hard money, but its supply increased rapidly when it became necessary to finance a major war. This currency was “soft” in that it was not backed by precious metal. The term “not worth a Continental” resulted from the inflation and consequent depreciation of the value of this currency.

Despite the inflation, the income

of the federal government for the war year 1781 came to a little over \$1 million, according to a 1795 report of the Continental Congress. The following shows receipts and disbursements:

RECEIPTS	
Bills of exchange sold . . .	\$ 294,165
Specie from France	462,597
Paper money negotiations	62,001
Yorktown booty	71,439
Specific supplies of	
Pennsylvania	101,054
Prizes	34,717
Sundries	4,106
Total	<u>\$1,030,079</u>

EXPENDITURES	
Salaries and expenses	
of civil officers	\$ 15,302
Marine	87,608
Paymaster	140,965
Military and ordnance	
stores	39,573
Quartermaster general . . .	110,330
Army subsistence	114,997
Army clothing	60,560
Medical department	10,090
Payment of old accounts . .	115,196
Miscellaneous	28,838
Total	<u>\$ 723,459</u>
Surplus	<u>\$ 306,620</u>

The surplus shown is doubtless not a real picture of the financial state of the US Treasury at the time; one source suggests the surplus was “created” to enhance the possibilities of further borrowing from Europe. From most accounts, the government was operating far in the red—up to \$20 million in expenses—while running the printing presses to try to stay even.

The galloping inflation created by this “soft” Continental currency was seized by the British as a weapon of war, since a defeat of American finances would have ended the revolution. England printed and circulated large quantities of counterfeit US currency to further erode its purchasing power. But these efforts were partially offset by infusions of specie from America’s

allies—France, Spain, and Holland.

One interesting problem faced by the financial records of the time is the intermixing of this Continental “soft” currency with the hard specie loaned by France. Considering that at one point in 1780 a dollar in silver equaled as much as \$500 in Continental currency, the inadequacy of colonial accounting being able to cope with such a situation is apparent.

Investments in privateering or a rum-running voyage helped to make venture accounting the rule of the day for revolutionary businessmen. The privateer would capture a British ship and share its bounty with the government. Each individual venture had different partners who invested their money to equip and launch a warship.

Account books of these ventures exist, showing the costs of outfitting a cruiser in hopes of capturing, say, a rich English merchantman returning from India. These endeavors were called patriotic piracy by many, although it would appear in some cases that the piracy aspect was paramount. The British navy referred to Captain John Paul Jones as a pirate and would have hanged him if they had caught him.

Periodic results were unimportant in such ventures, since the partnership was dissolved after the

voyage, and the assets which remained were divided and shared by the participants.

Since there were no American stock companies, partnerships were sometimes spread rather thin. The broadest on record is 1/96 of a trading voyage. Risks were high on such ventures, but rewards were often good. A partnership, Jack and Bromfield of Newburyport, Mass., cleared £7,591 profit on the slender trading capital of £1,600 between 1766 and 1774.

The accounting and finances of the Continental army in 1776 caused major problems that grew steadily worse as the war wore on. At times they frequently caused more headaches than did the “redcoats.” The underlying difficulty was that a small fledgling government, lacking the full support of its populace, could not afford to staff, arm, clothe, and feed a large standing army. The Continental Congress simply had no luck in taxing citizens to pay for the war. The situation was aggravated, moreover, by the inclination of many of the people who supplied these needs to be motivated solely by profit rather than by patriotic motives.

The difficulty of keeping accounting records may be suggested by the following:

Compiling a company roster in

the Continental Army was compounded by its recruiting methods. The army was staffed in part by means of paying bounties, or bonuses, for enlistment. This created a class of individuals who would enlist, desert, and enlist again in order to collect a number of bonuses. (It was also difficult to keep track of an army, whose men would leave for home to tend to their plowing or planting.)

Arms were as difficult to inventory as to obtain. They usually consisted of whatever the volunteers could bring with them, supplemented by some French muskets. It was not uncommon for 20 per cent of the Continental soldiers entering a battle to have no firearms. They would pick them up from fallen comrades, or from the enemy.

Uniforms for the common soldiers required no records at first, since they did not exist. Nor were they ever in reasonable supply, as they progressed from the rags at Valley Forge, where men could not drill because they had no clothes to wear, to a large shipload of uniforms that arrived from Europe a year after the war ended.

Food for colonial troops ranged from insufficient to non-existent, due to a general shortage and high prices. These problems were caused by such factors as farmers having to serve in the army, sales by American farmers to the English army for gold, sales abroad to raise money, lack of patriotism by some loyalist farmers, and a distribution system that was highly inefficient and included some corrupt commissary officers. The latter facts are perhaps shown by the saying at Valley Forge that wood for huts and fires was the only supply that was plentiful, because it was the one *not* involving the commissary or quartermaster corps.

The commissary general's department was created by a Congressional bill of 41 sections and 6,000 words. It covered duplicate invoices, receipts, issuance slips, ten-column ledgers, and so on. The accounting system created a series of cross-checks on commissaries of

forage, commissaries of purchase, issuing commissaries, keepers of stores warehouses, line officers receiving provisions from the commissaries, and the war board. The organization and penalties provided by this bill probably prevented some theft and profiteering, but it left the army ill-fed and ill-equipped.

The financial administration of the revolution continued to decline until 1780, when Congress basically declared itself bankrupt. That is when 1,500 Continental troops rebelled for fair pay, because inflation had brought four months of a soldier's pay to equal the price of one bushel of wheat. Congress voted to give full monetary authority to the financier Robert Morris. He took control in 1781 at a time that American bills of credit no longer had any value, taxes had proven to be uncollectible, and the conduct of the war was costing \$20 million per year, almost all of which was paid in printing press or fiat money.

Morris saved a failing situation. By administrative cutting, he reduced the war expense to \$5 million. He negotiated new loans from France, Spain, and Holland, taking payment in silver coins through Cuba and Mexico to revive the weak US currency. He drew new bills of credit against European loans that were under negotiation, using his own financial prestige and reputation to get them accepted, and pressuring Ben Franklin in Paris to get France to cover them.

The first American bank was founded by Robert Morris in Philadelphia to aid the revolutionary effort. It took in Continental or state paper from the subscribers, who got six-month interest-bearing notes on the bank. Military supplies were bought with this currency. Bills drawn on the envoys to Europe were held as collateral security until Congress paid for the supplies. Although these bills were in negotiable form, they were not negotiated until the envoys abroad had actually completed the loans.

The final American campaign of

the Revolution at Yorktown, Virginia, which defeated the British army under Cornwallis and ended the war, was financed by a \$1.4 million note Morris issued in his own name, plus \$20,000 of his own funds in silver coins used to provide back pay to soldiers.

Despite his major part in winning the Revolution, Robert Morris remains a controversial figure in American history. Evidence exists that he used his position to make private profit as a merchant and land speculator, and that his wealth increased dramatically during the war, because of his misuse of power and influence. After the Revolution, however, huge unsuccessful land speculations brought Morris to ruin and debtors' prison.

This entire military effort was, of course, under the direction of George Washington. A new side of his character is revealed by the account books he kept, both as a military man and as a leading businessman of his time.

As early as 1761, Washington shipped 56,000 pounds of tobacco to England and stored another 8,300 pounds of that year's crop. Two years later, he organized the Mississippi Company to acquire 1 million acres of western land, writing the articles of incorporation

himself and selling stock to friends. The British Crown refused, however, to give him a grant. Later Washington switched from raising tobacco to raising wheat and became the largest American miller of flour. He also raised prize livestock and conducted a major fishing business.

George Washington, like other colonial businessmen, kept his own accounts throughout his life. He devised his own filing system, using a letter press, and he filled three large ledgers in his own hand. His books were ruled like a cash book with debits to the left and credits to the right. The system was presumably based on an accounting textbook Washington had in his private library, *Bookkeeping Modernized, or Merchant-Accounts by Double Entry according to the Italian Form*, by John Mair of Scotland, published in 1769.

The profits and net worth in Washington's accounts are not easily calculated. It appears that he sold about \$400,000 worth of land between 1775 and 1783, but with the various forms of depreciated money then in circulation, this figure has little meaning in terms of the specie of that time, or translated into a modern currency value. Washington apparently was also frustrated by being unable to strike a meaningful balance, but he made a few attempts. In 1769, he achieved some type of balance showing: "By cash lost, stolen, or paid away without charging—£143-15-2."

He kept exact books on his several farms. They covered acres planted and harvested and the value of crops produced. Even during the revolution, he secured continual reports from his nephew on the progress at Mount Vernon, and sent him back instructions and advice. The results of his farming were not always so impressive; he appears to have been able to earn only about \$15,000 per year from Mount Vernon, a plantation then worth about \$200,000, or a return of 7½ percent untaxed.

Washington was very conscious of

inflation and made notes in his accounts, giving approximate values of dollars at different times in the inflation spiral. He had lost through currency depreciation much of the fortune that his wife Martha had brought him from her first husband. In later years, he wrote letters cautioning his stepson to protect his property against inflation.

In his military life, George Washington also kept careful accounts. Congress had offered him \$500 per month salary in 1775 as commander-in-chief of the Continental army, but he refused any salary and asked only for the reimbursement of his expenses.

The expense account was kept in the form of a ledger, using double-entry, with all expenses dated, briefly explained, and stated in both the dollar amount spent and in a British pounds sterling equivalent (listed under "lawful"). This account

book traces the entire history of the American Revolution as it follows Washington's travels and expenses from the first skirmish at Cambridge, Massachusetts, to the final victory at Yorktown, Virginia.

Washington's expense account is interesting not only for its historical content, but also for the great care and precision shown in the keeping of the accounts. The magnitude of the accounts is also worthy of note because the total expenses came to \$449,261.51 in today's terms (allowing \$26 in 1975 currency as conservatively equal to one British pound sterling in 1780).

The accounts of Washington—along with those of Jefferson, Hancock, Franklin, and Morris—provide seldom revealed insights into the lives of our revolutionary leaders. They become normal men with problems, rather than the monuments that such heroes tend

to become with the passage of time. Through such accounts the American Revolution, too, takes on a new aspect—not only that of a cumulative series of heroic battles, but also of an unrelenting struggle to finance soldiers, arms, uniforms, and rations.

The life of the average colonial businessman or farmer also is another area that is given focus when considered from an accounting aspect. Inflation, currency shortages, debts, barter, and joint ventures were all recorded for posterity in their ledgers and journals.

Perhaps some day historians with a knowledge of and interest in accounting will unlock new areas of study now being overlooked. In the meantime, accounting in colonial America waits to be discovered. When the day comes, will it change our understanding of the past? ▲