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A historical Account of the introductory years of Accounting Horizons

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Abstract

This research is an effort by the researcher to focus on the history of accounting and its evolvement in due course of time. The research has been conducted with the help of secondary data collected from websites, journals and monthly, yearly and quarterly reports furnished by accounting associations. The results shall assist the users in obtaining a more clear overview of accounting paradigms.

Keywords – Accounting, origin of accounting, ICAI, Financial accounting, Management accounting

Introduction

Origins of Accounting?

Accounting is more than just the act of keeping a list of debits and credits. It is the language of business and, by extension, of all things financial. Our senses collect information from our surroundings that our brains then interpret; accountants translate the complexities of finance into information that the public can understand. In this article, we will follow accounting from its roots in ancient times to its modern equivalent.

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KEY TAKEAWAYS

- Bookkeepers emerged when societies used the barter system and needed to record the agreements that they were making regarding goods or service transactions.
- Later, accounting ledgers were completed by hand and used either a single- or double-entry system.
- Luca Pacioli, a monk, laid the groundwork for modern accounting by creating an independent record that provided a clearer picture of an entity's financial activities: the financial statement.
- The railroads and the emergence of corporations were the stimulus for the establishment of accounting professionals.

Emergence of Accounting as a Discipline

How Has Modern Accounting Evolved in Recent Years?

Technology has changed accounting today. Bookkeeping is now automated. Since the first records were kept in America, bookkeepers have used a number of tools. William Seward Burroughs' adding machine, created in 1887 and perfected for commercial sale in the 1890s, helped early accountants calculate receipts and quickly reconcile their books.7

When IBM released its first large computer in 1952, it was based on the vacuum tube, which was small enough that it made it possible for businesses to buy them and led to accountants being among the first to use them. By 1959, transistors were replacing the tubes and making computers even more accessible.8 As early as 1961, transistors were being supplanted by microchips, which eventually led to computers for everyone.9

Today, technology has brought accounting software such as QuickBooks.10 These new advancements are much more intuitive, helping accountants do their job quicker, more accurately, and with more ease.

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One can never really understand a subject, unless they know where it came from. Therefore, a short history of the subject of accounting may be of interest to students of accounting. Here is a very brief history of how accounting evolved:

- **Single Entry Accounting System**

  Accounting is as old as financial transactions themselves. As soon as credit was invented, humans began to use accounting to simplify their lives. As expected, the oldest system of accounting used single entry accounting. This is the most intuitive form of accounting but is also incomplete. Records have been found on clay tablets in ancient Mesootamia that show the existence of single entry accounting in that time.

- **Bahi-Khata System**

  Prior to rise of European commerce in the Medieval Ages, India was the primary center for bustling trade and commercial activity. Although there has been no record of this fact, but is claimed that Indian merchants had very advanced accounting systems at that time. These systems were called the Bahi Khata system. It is rumored that the westerners designed the double entry system based on the principles of Bahi Khata system but once again there is no conclusive proof.

- **Merchants of Venice**

  The birthplace of modern day accounting is Venice. In the Medieval Ages, Venice was a center of trade and commercial activity. Merchants had giant businesses and they were strugglipg to run these corporations efficiently.

  It is then that Luca Pacioli developed the double entry accounting system. There is still debate about whether he developed it or just improved it and made it available to the

  merchants. However, debate or no debate, Luca Pacioli is considered to be the "Father of Modern Day Accounting".

- **Chartered Corporations**

  In the era of colonialism, chartered corporations were common. The government would approve certain companies and give them exclusive rights to trade with certain colonies. Citizens were encouraged to invest in such companies. Shares of a few such companies had paid rich dividends and hence it was common to invest in such companies.

  However, the performance of such companies had to be reported to the shareholders on a periodic basis. Therefore accounting systems were further developed. They were now providing information to external shareholders apart from providing information to internal management.

- **Modern Accounting**

  The chartered companies have long gone. The world is now a free market. But information still needs to be provided to the external shareholders about the conduct of operations. Accounting, therefore has been further developed and is highly regulated in most countries.

New and Improved Ledgers

As currencies became available and tradesmen and merchants began to build material wealth, bookkeeping evolved. Then, as now, business sense and ability with numbers were not always found in one person, so math-phobic merchants would employ bookkeepers to maintain a record of what they owed and who owed debts to them.

Until the late 1400s, this information was arranged in a narrative style with all the numbers in a single column—whether an amount was paid, owed, or otherwise. This is called “single-entry” bookkeeping.

The Mathematical Monk

As part of the tradition of learned monks conducting high-level scientific and philosophical research in the 15th century, Italian monk Luca Pacioli revamped the common bookkeeping structure and laid the groundwork for modern accounting. Pacioli, who is commonly known as "the father of accounting," published a textbook called "Summa de Arithmetica, Geometria, Proportioni et Proportionalita" in 1494, which showed the benefits of a double-entry system for bookkeeping.13

The idea was to list an entity's resources separately from any claims on those resources by other entities. In the simplest form, this meant creating a balance sheet with separate debits and credits. This innovation made bookkeeping more efficient and provided a clearer picture of a company's overall strength. This record, however, was only for the owner who hired the bookkeeper. The general public had no access to such records—at least not yet.

Here is what the double-entry system may have looked like. You can see the two separate columns for debits and credits, along with the description of each transaction and how it was paid: cash or commodities. In this case, it was chickens, seeds, eggs, and furniture.

	Debit	Credit

Early Financial Statements

To attract investors, corporations began to publish their financials in the form of a balance sheet, income statement, and cash flow statement. These documents were proof of a company's profit-making abilities. Although investment capital stimulated operations and profits for most corporations, it also increased the pressure on management to please their new bosses: the shareholders. For their part, the shareholders did not completely trust management, which exposed the need for independent financial reviews of a company's operations.

Birth of a Profession

Accountants were already essential for attracting investors, and they quickly became essential for maintaining investor confidence. The American Association of Public Accountants (AAPA) was established in 1887, and the accounting profession was formally recognized in 1896 with the establishment of the professional title of certified public accountant (CPA).6 The title is awarded to those who pass state examinations and have three years of experience in the field. The creation of professional accountants came at an opportune time. Less than 20 years later, the demand for CPAs skyrocketed as the U.S. government, in need of money to fight a war, began charging income tax in 1912.

Review of literature

Christopher J Napier (1989) "Research directions in accounting history" Accounting has sometimes been criticised as an illegitimate field for historical study. This paper examines three interrelated approaches to historical accounting research: the attempt to understand the past for its own sake, the locating of accounting in its sociohistorical context and the application of positive accounting theory to history. By identifying the potential for fruitful development in each of these three research directions, the paper concludes that there is a wide and growing role for historical accounting studies.

Hammond, T. and Sikka, P. (1996),Radicalizing accounting history: the potential of oral history Much of the historical research in accounting continues to mimic idealized scientific methods in which written and official evidence is privileged. This research advances the narrative that the institutions of accountancy and major personalities are engaged in a heroic process of "progress". Such a view ignores the impact of accounting on the lives of ordinary people. Thus, there is little understanding of the lived experiences of ordinary people who are affected by accounting and shape its development. This is in contrast to the currently dominant approaches to writing accounting history. Calls for the use of oral histories so that those marginalized and neglected by conventional history can be given a voice and problematize the narratives of "progress" dominating accounting research.

Napier, C. J. (2001). Accounting history and accounting progress

The "new" accounting historians that emerged from the mid-1980s characterised their predecessors as relying heavily on a view of accounting as progressive and accounting change as evolutionary. From a social science perspective, progress is a problematic concept, as it implies not just change but also improvement, and thus seems to imply the making of a value judgement. As accounting has become an object of study less as a technical and more as a social phenomenon, consensus as to what constitutes an improvement becomes harder to secure. However, from a perspective grounded in historiography, this paper reviews the use of a concept of progress in the writing of history from the eighteenth century, and analyses its use, together with that of a concept of evolution, in "traditional" accounting history. Appealing to recent developments in the understanding of the role of narrative in history, the paper suggests that the use of narratives of accounting progress should not be ruled out on a priori grounds.

Barbara D. Merino, (1998) "CRITICAL THEORY AND ACCOUNTING HISTORY: CHALLENGES AND OPPORTUNITIES' briefly examines the contributions that postmodern (critical) research has made to the historical accounting literature and the opportunities that this new body of literature has created for traditional historical researchers. I suggest that the "new history" that has rendered the "familiar strange" has provided new understanding of our discipline that should be welcomed by all historians. The paper briefly examines two areas, the emergence of double entry bookkeeping and cost accounting, to demonstrate the new insights that critical historians have provided to what has been considered a settled agenda. I conclude by noting that the diversity critical research has added to the accounting history research should be celebrated, but caution that we not engage in the modernist strategy of trying to find a "certified path to knowledge." Accounting history will be enhanced if our community adopts the values–tolerance, willingness to listen, and respect for alternative views–ithat have enabled researchers in other disciplines to flourish.

Carnegie, G.D. and Napier, C.J. (2002),Exploring comparative international accounting history Accounting historians have long recognised accounting's international scope but have typically concentrated their research endeavours on region- or country-specific studies, or on investigating the diffusion of accounting ideas, techniques and institutions from one country to others. Much potential exists to study the development of accounting from a comparative international perspective, mirroring the attention paid over the past two decades to the comparative study of international accounting practices and standards. This paper proposes a definition of comparative international accounting history (CIAH) and examines the nature and scope of studies within this genre. The CIAH approach is exemplified through an exploratory comparative study of agrarian accounting in Britain and Australia in the latter half of the nineteenth century. In the light of this study, the paper evaluates the potential of CIAH to contribute to an understanding of accounting's past and provide insights into accounting's present and future.

Michael G. Keenan, (1998) A DEFENCE OF 'TRADITIONAL' ACCOUNTING HISTORY RESEARCH METHODOLOGY So-called `traditional' accounting history research methodology is defended against three criticisms made by Miller and Napier (1993) in the course of their advocacy of an alternative form of research characterised as genealogies of calculation. The first criticism is directed at the domain of accounting history research and is based on two claims: that the domain has been restricted to double-entry bookkeeping, and that it cannot be clearly delineated. The first claim is rebutted on the grounds that it involves special pleading and confuses the practice and methodology of research. The second claim is shown not to pose a problem of methodology. The second criticism of accounting history research rejects explanation as a research objective. In reply it is argued that historical explanation is a constitutive feature of historical research, and a research objective which historians *qua* historians are not free to accept or reject at will. The third criticism is directed at evolutionary models of historical explanation and their alleged reliance on concepts of teleological processes and necessary outcomes. It is argued that such concepts are not essential to evolutionary models of explanation. The application of these methodological points is illustrated with a sketch of an explanation of the general adoption of double-entry bookkeeping in England in the nineteenth century.

Objectives & Research Methodology

This research study's main purpose is to take a deep delve into the accounting history and its emergence as a diverse discipline. The data for the current study has been retreived from various government websites, published sources and reports released by Indian accounting standards committee and institute of Chartered Accountants of India. The data has been analyzed descriptively and analytical approach has been adopted.

Analysis & Discussion

Four Stages of Accounting History

The history of accounting incorporates 4 stages with distinct developments and processes. The first stage began in primitive times and ended in the 15th century, and the most recent stage began in 1951 and has lasted to the present. The stages follow:

Emergent

The first stage of accounting dates to the primitive days of civilization. Although historians haven't uncovered a record of accounting practices during this time, they point to the first exchange of goods or services as the likely start of some form of record keeping. This period lasted until 1494, with the publication of the first book to describe double-entry accounting, a system using debit and credit entries.

Accounting practices that took place during the overall historic periods within this time frame include the following:

Stone age — Marking ticks on cave walls and mountains, and in the jungle to record goods collected and loaned

Primitive — Noting symbols on walls and making rope knots to designate transactions

Barter — Recording deals made through barter for agricultural or other propertz

Currency — Tracking monetary transactions, originally in Europe, related to transactions that bank loans financed

Preanalytic

The period between 1495 and 1799 in the history of accounting is called the preanalytic period. This span of time saw the introduction of some key accounting concepts:

Going concern — A business's ability to stay afloat.

Periodic inventory — The practice of recording financial entries at the end of each given accounting period

Money measurement — A system that records only transactions that have monetary value.

Development

The development, or explanatory, period in accounting dates from 1800 to 1950. This time frame includes two key shifts in business, with the industrial revolution moving much of the world to a manufacturing-based economy and the emergence of joint-stock companies bringing multiple business shareholders.

The impact of these changes and others in the development period includes the following:

Industrial revolution — Required tracking the large amounts of capital involved in establishing new corporations and railroads

Joint-stock companies — Added complexity to doing business, with the financial concerns of shareholders and other business partners becoming factors

Government regulation — Led to the development of uniform accounting practices to accommodate tax laws

Modern

From 1951 to the present day, accounting has been in its modern period, with accounting methods continuing their shift to meet uniform standards. The growing demand for long-term financial forecasting led to calls for accounting methods that accurately report current finances and project future conditions.

To accommodate the need for true and fair reporting, the U.S. accounting industry adopted generally accepted accounting principles (GAAP). These rules, standards and procedures dictate the way that the nation's public companies compile and report financial statements.

Some key issues in the global economy drove accounting developments in this period as well, including the following:

Stock market crash of 1929 — Led to the enforcement of accounting standards and the establishment of the U.S. Securities and Exchange Commission (SEC)

Ethics investigations — Helped to shape the profession's standards and oversight, following high-profile instances of illegal accounting practices

Recognition of Accounting as a Profession

The recognition of accounting as a profession occurred with the first organizations focused on the career. Established in Scotland in 1854, the Institute of Accountants and Actuaries in Glasgow and the Edinburgh Society of Accountants were the first professional organizations for accountants. The groups' members called themselves "chartered accountants," and the Glasgow organization petitioned Queen Victoria for a royal charter recognizing the role as independent from solicitors, a legal profession.

The American Association of Public Accountants (AAPA) followed in 1887. In 1896, the first accountants took the standardized test that designated them as certified public accountants (CPAs). In 1957, the organization that awards the CPA designation became the American Institute of Certified Public Accountants (AICPA).

Modern Accounting Methods

Traditional, or British, accounting is a high-level approach to recording transactions that was predominantly used early in accounting's history. The modern, or American, method of accounting is a more in-depth look at financial numbers that helps business leaders

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Access data

Analyze trends

Develop forecasts

Strategize to gain advantage over competitor.

Most developed countries now use modern accounting methods, which also typically rely on electronic processes for greater speed & accuracy.

Traditional Accounting vs. Modern Accounting

Different categories and tools define the two primary approaches to accounting. Below are some distinctions between traditional and modern accounting.

Traditional Accounting

Traditional accounting uses 3 categories for tracking transactions. Personal accounts relate to a person or organization, while real and nominal accounts are considered impersonal accounts that aren't for a specific individual or firm.

Personal — Transactions related to a person, firm, company, or other organization

Real — Accounts whose balances carry from one accounting period to the next

Nominal — Accounts whose balances close at the end of each accounting period, startingthe next period with a zero balance

Modern Accounting

Modern accounting divides financial data into additional categoriesExternal link:open_in_new, including the following:

Assets — Items of value that a company owns

Liabilities — Debts payable to outside entities

Capital — The value of assets minus liabilities

Revenue — Cash coming into the company because of its primary business activities

Expenses — Amount spent on items or activities to generate revenue

Withdrawals — Funds withdrawn by the business owner for personal use

Accounting organizations offer resources that provide additional details about accounting and its background as well as jobs and certifications:

Association of Chartered Certified Accountants — ACCA offers insights about the history and future of accounting for students, educators, and accountants.

Association of Certified Fraud Examiners — The ACFE provides training, career resources, and the opportunity to pursue the Certified Fraud Examiner (CFE) designation.

Association of International Certified Professional — AICPA offers exams for CPA and Chartered Global Management Accountant (CGMA) designations as well as resources on topics such as ethics, forensic services, and technology.

American Accounting Association — The AAA caters to accounting professionals in the academic community by providing research, a newsletter, and a career center.

Association of Non- Profit Accountants & Finance Providers- ANAFP provides resources for accounting and finance professionals in the nonprofit sector, with materials about topics such as accounting and bookkeeping and tax returns.

National society of accountants — NSA assists tax and accounting professionals with training, webinars, discount programs, and advocacy efforts.

Conclusion

In conclusion, from these historical developments the accounting practice has spread rapidly across the globe to quickly develop into the respectable profession that it is today. The transition has seen the profession refine its operating standards to match the ever changing and challenging business environment. Today, accounting is necessary in controlling the efficient running of business operations. Accounting is as old as civilization and one of the most important professions in the field of business and economics. Accountants are known to have been involved in developing cities and trade in the process of building wealth. They created the concept of numbers and wealth besides pioneering the advancement of money, finance and banking. The Italian Renaissance was fueled by the double entry bookkeeping that was invented by accountants. They salvaged many investors and entrepreneurs in the Industrial revolution from bankruptcy. The Information Revolution that is accelerating the global economic trends has been made possible through great contributions by the accounting profession. Western capitalism was as a result of confidence imparted in the capital markets by accountants.

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