

Accounting at the Portuguese School of Commerce in 1765: Differences and Similarities with Accounting Today

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Abstract

This paper presents the application of the double-entry bookkeeping method, taught to students at the Aula do Comércio (School of Commerce), established in Lisbon in 1759. The aim in this research is to identify the differences and similarities between accounting practiced today and double-entry bookkeeping taught at the School of Commerce in 1765. The main bibliographic base used is the manuscript dictated through the first lens (teacher) of the School, João Henrique de Souza. The historical documentary research method was applied. The main documentary source, the abovementioned manuscript, is primary. The theme is important as it addresses the beginnings of Portuguese-Brazilian accounting education. It should be highlighted that the bookkeeping method at that time – double-entry – contains both differences and similarities with the procedures adopted today to recognize similar operations. Analyzing the text and presenting different examples transcribed from the manuscript, the paper addresses the bookkeeping of the registers used at that time (daybook, journal and ledger), the accounts used in trade and industrial activities and the method to verify the balance of the transactions that took place in that period. Finally, it is observed that many of the forms and concepts to do bookkeeping are similar to current practices.

Keywords: Accounting history, School of Commerce in Portugal, Text of the School of Commerce, Double-Entry bookkeeping.

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1. INTRODUCTION

The establishment of the School of Commerce in 1759 and the creation of the Exchequer in 1761 marked the official introduction of the double-entry method on Portuguese territory and supported the significant changes introduced under Pombal. In his work *O Livro Razão de Antônio Coelho Guerreiro*, Rau (apud MAURO, 1973, p. 158) indicates that that Portuguese Merchant's accounting followed the principles of double-entry bookkeeping, although existing documents provide no conclusive bases in this respect. It was not imagined, however, that the method was unknown or that it had been adopted immediately to replace practices in force until then. Like any change, this also took place slow and gradually, mainly in private initiative, which maintained the use of inflow and outflow bookkeeping for many years after that date.

While the adoption of the method is considered a landmark in the history of that country, the question this paper intends to answer is: **In what respect does accounting today differ from and is it similar to the double-entry bookkeeping taught at the School of Commerce in 1765?**

To answer this question, the course book entitled "*A Arte da Escritura Dobrada que Dictou na Aula de Commercio João Henrique de Souza e copeada para Instrução de José Feliz Venâncio Couto, em 1765*" (SOUZA, 1765) will be used as the primary and basic bibliographic source. This work is a manuscript compiled based on a dictation by João Henrique de Souza, first lens (teacher) at that School.

The research method is characterized as historical and documentary. Documentary to the extent that, according to Silva and Grigolo (apud BEUREN, 2008, p. 89) "it uses materials that have not received any in-depth analysis yet". Historical as, according to Martins (1994, p. 30), "it systematically reconstructs the past, checking evidences and outlining conclusions". The main documentary source, the above manuscript, is primary. The accounting entries presented in this research reproduce the entries in the course book dictated by João Henrique de Souza, except for the name of the people involved in the different transactions that were reported. The replacement is a small homage the author is rendering to some people who were and/or are still very important in his personal and academic life.

The theme is important to the extent that it sheds light on a theme that, if not original, has at the least received very little research until date: the contents of the first official manifestation of accounting teaching in Portugal in the third quarter of the 18th century.

The subsequent sections address the description of the baseline manuscript for this research, its author, the contents of the manuscript, discussing the necessary books for bookkeeping (daybook, journal and ledger), the balance, the application of the method to industrial activities and the conclusion.

2. THE MANUSCRIPT

The size of the manuscript is 196mm height by 150mm width. In total, it contains 452 pages, divided in two topics: Double-Entry Bookkeeping, pp. 1-156, and Arithmetic, pp. 161-452. Figure 1 shows the front page of the manuscript.

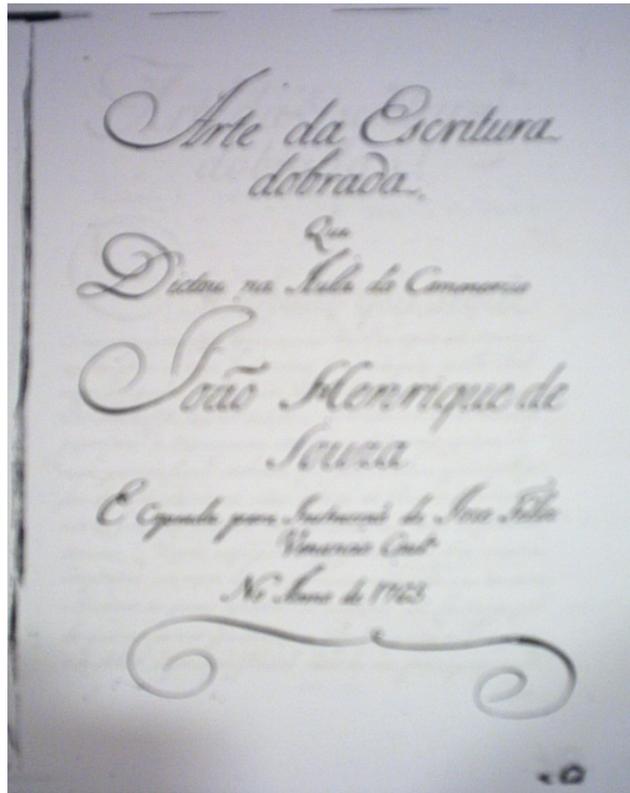


Figure 1: Reproduction of the front page of the manuscript

The text on the front page of the manuscript is somewhat difficult to understand, not only because of the characteristics of written Portuguese at that time, but also because of the calligraphy, produced with a quill pen (writing instrument of that age. It should be reminded that the fountain pen would only be invented in 1884 by the American Lewis Edson Waterman). In function of its didactic nature, the text is quite wordy and repetitive. Each theme is elaborated in detail and each example attempts to address different possibilities. It is no coincidence that it takes 28 pages to explain the nine bookkeeping accounts of the Ledger.

The accounting part of the manuscript is divided in 14 chapters, which are:

- Introduction, p. 1.
- Daybook, p. 4.
- Journal and Fundamental Principles of Double-Entry Bookkeeping, p. 17.
- Accounts of the Daybook, p. 30.
- General Rules for the debtor and creditor in any addition, p. 41.
- Additions of cash purchases or sales, p. 56.
- Ledger, p. 58.
- Short examples of the Ledger, p. 65.
- Balances, p. 72.
- What the Merchant should reflect on after having determined the balance, p. 97.
- Abbreviations that can be used in the bookkeeping method, p. 100.
- Second example of double-entry bookkeeping, applied to commerce, p. 105.
- Reflections on Double-Entry bookkeeping towards the greater intelligence of this Art, p. 115.
- Applications of double-entry bookkeeping to different business deals that can take place, p. 134.

He starts by explaining the double-entry method, indicating Italy as its place of origin. It is interesting to observe that the author classifies Accounting as an “art”, reflecting his age. The opening paragraph addresses the topic as follows:

The method most Merchants in Europe adopt to organize their account books was invented by the Italians, where it is called *Scritura Doppia* or Double-Entry Bookkeeping. Bookkeeping is generically considered as the organization of the Account Books, and this is particularly called double-entry because, in the main book, each addition of a Revenue and Expense is registered twofold, that is, each addition is entered in two different places. Various expressions characteristic of this Art have already been adopted in our language and the same is happening to other Nations, which also received it from the Italians (SOUZA, 1765, p. 1, author's translation).

3. THE AUTHOR

According to Rodrigues and Craig (2004, p. 8), João Henrique de Souza was born in 1720 and died in 1788. Between the ages of 7 and 12, he was educated by the French Michel Leboutoux, from whom he learned French. At the age of 12 years, he went to work at the trade houses two Florentines maintained in Lisbon. There he worked until 1742, when he went to work as a bookkeeper for the Macau Company. In 1747, he departed to Buenos Aires on business. In 1752, he was in Rio de Janeiro, and returned to Portugal in 1755 to set up his own business. His activities during the time he spent in Argentina and Brazil are unknown. The recommendation letters he had influenced Pombal to name him the first teacher of the School of Commerce on February 1st 1757. He only taught the first class, which started on September 1st 1759. On January 11th 1762, he was transferred to the Exchequer to organize accounting based on the double-entry bookkeeping method. In function of his transfer, he did not administer the final exams to the first class of graduates in the same year.

Considering the period when he administered the School, an apparent bibliographic imprecision is verified. The title highlights the year of the copy: "*copied for the instruction of José Feliz Venâncio Couto, in 1765*". If, in 1765, João Henrique de Souza no longer administered the Class, could the copy have been made not by José Felix, but by someone – João Henrique himself? – who gave it to the student. That is a point of interest for future study.

4. THE SCHOOL

The need to establish commercial teaching in Portugal was already determined in the articles of incorporation of the Chamber of Commerce, created upon a Royal Decree on September 30th 1755, which signaled in this respect that:

considering that the lack of formality in the distribution and order of the same Commerce's books is one of the main cause and the most evident start of the decay and ruin of many Merchants; and also that the ignorance about the reduction of money, of weights, of measures, and of the intelligence of exchanges and other trade materials certainly represent a great loss and impediment to any and all Trade with foreign Nations; and seeking, as the obligation of its Institute demands, to correct this known disorder, in Chapter seventeen of the same Chamber's Articles of Incorporation, his Majesty proposed the establishment of a School, under the presidency of one or two Masters, and hiring twenty fixed and other extra Assistants, to teach, at this public and very important School, the principles any perfect Merchant needs through the communication of the Italian method, accepted all over Europe, so that everybody would make sure to keep their Commerce books with proper formality. (SILVA *apud* LIMA and GOMES, 2011, p. 2, author's translation).

In order to be admitted to the course, the teacher at the School of Commerce examined whether candidates could at least read, write and count. The minimum age to be admitted was 14 years, without any maximum age.

According to Lima and Gomes (2011), the duration of the course was three years, functioning from 8 till 12 a.m. in the winter and from 7 till 11 a.m. in the summer. The following subjects were part of the curriculum: mercantile bookkeeping, elementary arithmetic, currency conversion, national and foreign weights and measures, insurances, policies, exchanges and commissions. The discipline about mercantile bookkeeping, the theme of the next topic, focused on teaching the double-entry method.

The School of Commerce lasted until 1844, when it was reformulated and was called the *Escola de Comércio* or *Secção Comercial do Liceu de Lisboa* (LIMA; GOMES, 2011, p. 3).

5. THE BOOKS NEEDED FOR BOOKKEEPING

Three books are indicated: Daybook, Journal and Ledger. According to the author, the Daybook may be excluded as it “only serves the purpose of registration for the sake of reminder [entry to remind the transaction made] until writing in the Journal.” (SOUZA, 1765, p. 3, author’s translation).

The Journal, then, serves to individually arrange the transactions that are to be registered in the Ledger. Besides the General Books, the author indicates the use of Auxiliary books, like: *Registro de Fazendas* [inventories], index of private accounts, among others, varying in function of the activity type or size.

Each book, whether general or auxiliary, received identification in increasing alphabetic order, that is, instead of calling them book X, No. 1, 2, 3 and so forth, the sequence used was book X, No. A, B, C, etc.

5. 1. The daybook

Today, transactions can be registered both immediately and after some time, based on the documentary proof (an invoice for example). In the mid-18th century, in order not to depend on his memory at the end of a work journey, used a book in which notes were made in a hurry and which was called Daybook. The notes it contained were not “as totally perfect” as the other books, like the Journal for example, which should be kept “with proper formality”, i.e. in good calligraphy, without errors or erasures.

The Daybook was described as a common paper book, bound, with three vertical lines on each page: one to the left, indicating the entry number; one in the middle, to describe the transaction; and one to the right for the traded values, as follows:

<i>June 20th 1760</i>		
N.º 23	<i>I have bought from Libardi for Money</i> <i>5 Pieces of fine English cloth at 32\$000 per piece</i>	160\$000

The amount of 160\$000 corresponds to 160 *Contos de Réis*. If the amount were 160\$200, it would correspond to 160 *Contos* and 200 *Réis*.

According to Souza (1765, p.4, author’s translation), in order to keep the Daybook, “little science and great exactness was needed, because it is on the certainty of this start that the truth of the accounts essentially depends”.

The efficacy of the daybook depended on three factors, according to Souza (1765):

- a) enter the transaction as soon as the business was concluded. If it took place outside the store, the traded should carry a *caderno de algibeira*. The transaction to the daybook should be entered as soon as he returned to the store. The term *Algibeira* means the pocket of a piece of clothing (LUFT, 1988, p. 22);
- b) indicate all circumstances essential to the business;
- c) attempt, whenever possible, not to commit errors in the transcription process and check what was written at the end.

The essential circumstances indicated under item “b” refer to the following data: date, description of the event, person, description of the good, quantity sold or purchased, prices and payment form.

What the payment form is concerned, it should be highlighted that the contemporary terminology indicated four different possibilities, as highlighted in the following examples:

<i>May 15th 1760</i>	
<i>N.º 1</i>	<i>I purchased from Elizabeth a dinheiro de contado</i>
<i>N.º 2</i>	<i>I purchased from Nena a dinheiro</i>
<i>N.º 3</i>	<i>I purchased from Amado Francisco para pagar a 5 meses</i>
<i>N.º 4</i>	<i>I purchased from Lázaro pagar ao uso da Praça</i>

The distinctions among these transactions were the terms to receive each of them, indicated in bold. Purchasing *a dinheiro* and *a dinheiro de contado* corresponded to significantly different operations. The manuscript indicates that,

We make a difference between buying and selling *a dinheiro* or *a dinheiro de contado*. *Dinheiro de contado* refers to what the Merchant actually charges or pays in the act of selling or buying. Selling or buying *a dinheiro* refers to the amount agreed upon to pay soon, but the money is not given on the act of receiving the *fazenda* [good purchased or sold], but is postponed to another day and sometimes plenty [of days] goes by before receiving. [...] (SOUZA, 1765, p. 9, author’s translation)

In current terms, a transaction *a dinheiro de contado* would be the same as selling or buying cash. *A dinheiro*, on the other hand, is a very short-term operation, whose settlement should take place within three or four days after receiving the goods.

A transaction for payment within six months is self-explanatory. As for the transaction called *ao uso da Praça*, although the course book does not indicate the term the contemporary uses and customs granted for payment, in this respect, professor Maria da Glória Paula from the University of Lisbon School of Languages, clarifies the following (our acknowledgements for her kindness in providing this information):

‘*Pagar de acordo com o uso da praça*’ has a restrictive meaning, as the *praça* comprised the set of Merchants in a city who followed regional and local practices. The terms and customs that rules commercial relations were not general, but concrete; they followed a right of customs the parties respected, in response to the values of good faith, of the given word, instead of written law.

Term operations were generically called *a fiado* (credit) or simply *fiado*, an expression that persists until today.

The course book gives different examples of notes in the daybook. Most are routine operations. Nevertheless, cases are reproduced in which some particularly interesting characteristics were identified.

Example of Loan:

<i>May 12th 1760</i>	
<i>N.º 5</i>	<i>I lent Giuntini At an interest rate of 5% during 1 year, with a mortgage of a farm [rural property] located in Campo Grande as indicated in the celebrated on this day in the notes of notary João de Oliveira</i>
	<i>7.800\$000</i>

Through this example, it is proved that 5% was the usual interest rate at that time and that properties were registered at a notary and traded through a mortgage document.

Example of Sale partially paid in money and part in goods.

August 12th 1760

N.º 6	<i>I sold part in exchange and part in Cash</i>		
	<i>I delivered</i>		
		10 Pieces of blue xitas [type of tissue] w/ 261 cubits	138\$360
	<i>I received</i>		
		6 Barrels of wheat from the land at 19\$200	115\$200
		In Cash	23\$160
		138\$360	

It is noteworthy that the Merchant who registered the notes in the Daybook owned a tissue store but that, when the occasion seemed favorable, his activities extended to other types, as the following example also demonstrates. Also, receivables could take the form of cash as well as product exchange, as the previous and following transactions demonstrate.

Example of Credit purchase:

August 12th 1760

N.º 7	<i>I bought from Georgia part in species and part on credit for 6 months.</i>		
		30 barrels of butter 68:10 Ls	
		Taras 13:10 Ls	
		Liquid 55:00 a \$880	99\$232
	<i>I delivered</i>		
		34 Almudes of wine at 1\$200	44\$000
	<i>I owe</i>	55\$232	

The term *Taras* used on one of the lines of entry No. 7 refers to the discount on the product's weight, corresponding to the weight of the recipient (LUFT, 1988, p. 533), while the term *Almudes* used in the same entry refers to an ancient measure that ranged between 16 and 25 liters (PESTANA, 1994, p. 54).

Example of Spending (Expenses and Cost):

July 16th 1760

N.º 8	<i>I spent</i>		
		For expenses on my house	24\$000
		For 6 months of rent of the store	28\$800
		52\$800	

The transactions demonstrate that no segregation was made between the figure of the entity and the owner. Both expenses were registered as part of the business' normal activities. It should be highlighted that the Entity Concept was only defined at the start of the 20th century.

Example of Inventory Adjustment:

July 24th 1760

N.º 9	<i>I lost</i> <i>1 piece of cloth that missed at the shop and cost</i>	1\$300
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The inventory adjustments were considered a loss and valued at their cost. It is important to heed not only the adjustment, but also the fact that contemporary inventories were quantified at their cost.

Example of Financial Revenues:

Nº10	<i>I gained</i> <i>Interest on 1,200\$000 I lent to Maria Luiza and she paid me this principal today with the yield for 5 months and 4 days at the rate of 5%.</i>	25\$666
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Finally, operation No. 10 indicates that the interest rates received were calculated based on a 360-day period, corresponding to what we call the “commercial year” today, as demonstrated next:

$$Interest_Simple = \left[\left(\frac{principal}{100} \times rate \right) \div \left(\frac{N^\circ \text{ days}}{360} \right) \right]$$

$$Interest_Simple = \frac{1200}{100} \cdot 5 \div \frac{154}{360} \div$$

Simple interest = 25\$666

As to the moment when the right to interest rates is recognized, the author clarifies that “in case the next six months of interest rates are already due, then this should be entered as a debt from Maria Luiza, while the event of its charge in this case should be registered as a debt charged from a debtor.” (SOUZA, 1765, p. 15, author’s translation).

The abovementioned accounting treatment (No. 10) reveals a mid term between the cash and the accrual bases of accounting, as the debt related to the interest rates was not appropriated monthly, but only debited to the account of Maria Luiza (receivables) if she did not pay on the maturity date, i.e. six months after the contract was closed. The registration of the debt before its actual receipt, however, suggests that the accrual basis is adopted.

At the end of the explanations about the bookkeeping of the Daybook, the author alerts that registers should be continuous, without leaving any blank lines or pages.

5.2 The Journal

The Journal should be made of high-quality paper, with four lines on each page, two on the right-hand side to register amounts and two on the left, sufficiently distant “to write three digits between them” (SOUZA, 1765, p. 17, author’s translation). Bookkeeping was done “per day” and the creditor and debtor should be indicated in capital letters, showing “this account owes that much to that account, for this or that reason, and the respective amount” (SOUZA, 1765, p. 17, author’s translation).

Next, two of the above entries are highlighted, taken from the Daybook, where the transactions were registered as follows:

On May 15th 1760

N.º 4	I bought from Lázaro to pay to use the Square.	80\$625
N.º 3	I paid Amado Francisco For what I owed	58\$000

In the Journal, these transactions would be registered as follows:

Page 5 of Journal Num A			
	On May 15 th 1760		
<u>3</u>	FAZENDAS GERAIS Owe		
5	To Lázaro R\$ 80\$625 For 1 piece of thin cloth I bought at 2,150 to pay to use the Square	80	625
<u>26</u>	Amado Francisco Owes		
<u>2</u>	To CAIXA R\$ 58\$000 Which I paid for what I owed...	58	000

The Daybook served as the base for the bookkeeping of the Journal. Consequently, the same accounts were used in both and belonged to two basic groups:

- General Accounts, which represented the Merchant himself.
- Private Accounts, which represented the people the Merchant transacted with.

This distribution was based on the following logic “When the Merchant spends another receives and, when he receives, the other spends. That is, what is revenue for one is expense for the other” (SOUZA, 1765, p. 18, author’s translation).

The figures, in the form of fractions, written in the left-hand column, indicate the page number of the Journal where the account was registered. To give an example: if the Merchant needed to locate on what page of the Journal the operation with Amado Francisco had been registered, he would open the book on page 26 and find the account Amado Francisco. The credit would be found on page 2, corresponding to the Cash account. “The *folio* [page] of the Debtor is always written above and that of the Creditor below the line” (SOUZA, 1765, p. 59).

Basically, the General Accounts were as follows:

- Capital
- Cash
- Inventories
- General Spending
- Profits and Losses
- Business Spending
- Real Estate
- Chattels
- Interest in this or that business
- Others the Merchant wished to open.

Private Accounts:

- One for each person the Merchant negotiated with.

5.2.1 The denomination of the accounts

The denomination of the main accounts used at that time continues until today. The difference is that they were not identified as belonging to assets or liabilities, as that classification did not exist. Over time, the accounts were simply debited in function of additions or credited as a result of decreases.

When the results were determined – and only on that occasion –, the accounts were grouped in two columns, placing the ones with a credit balance on the right and those with a debt balance on the left. No income accounts existed either, so that all transactions were treated in the balance sheet, including those we know as revenues and expenses today.

Next, some examples of entries are given, per operation type, as well as the denomination of the account and its application:

1) Entry in the *Cabedal* or Capital account to start a business:

Page 1 of Journal Num. A			
On January 04th 1760			
02 01	<i>CASH</i> Owes To <i>CAPITAL</i> For the store I started today.....	R\$ 480\$000	480 000

This was the Merchant’s main account and essentially represented him, as it indicated the amount of his goods, reminding once again that no distinction was made between his commerce and his personal goods. At the start of the business, the actual amount he owned in money, inventories, chattels or any other goods was credited to the account. Then, successively, the heritages, dowries, donations or other considerable capital gains he received. The donations the Merchant may give to his children or third parties were entered in the debit part of this account.

As a counterpart of Capital entries, the Cash account was debited for money, *Fazendas Gerais* for inventories and Real Estate or Chattels for fixed goods.

If the business had more than one partner, instead of generically calling the account *Cabedal* or *Capital*, it received the name of each partner and the amount of each interest, but this was only valid in businesses with few partners.

Larger initiatives, with many partners, which were called General Companies at that time and whose interests constantly changed hands, adopted a similar solution to what is used today: the use of an auxiliary book for individual records of the shareholders. The *Capital* account only indicated the collective amount at the Company’s disposal.

2) Cash obtained by Loan account:

Page 2 of Journal Num. A			
On January 14th 1760			
02 19	<i>CASH</i> Owes To <i>ARJOVALDO</i> Who lent me at an interest rate of 5% for six months, for which I wrote down my obligation on this day [signed a document hiring the loan].	R\$ 41\$200	41 200

Indicated the amount in cash the Merchant held as part of his Capital or of what he owed to third parties. At the start of the business, the money the Merchant used to start the activity was debited and, then, successively, any amount he received. All money he spent was credited.

3) Inventory Account

<i>Page 1 of Journal Num. A</i>			
<i>On January 07th 1760</i>			
<u>03</u>	<i>INVENTORY Owes</i>		
02	<i>To CASH</i>	<i>R\$ \$600</i>	
	<i>For a box with 12 pieces of French silk I bought from Nilton, and paid cash, at \$500 rs per unit.....</i>		<i>600</i>

Showed the merchant's inventories, including both his Capital and loans from third parties. All goods that entered the store were debited, whether purchased in cash or on credit. Outflows were credit at the sales price, as well as gifts and presents, thefts, losses by deterioration or breakage and any other outflows. It is highlighted that gifts, losses due to theft or deterioration etc. were credited to the account at their cost.

4) Real Estate Account

<i>Page 2 of Journal Num. A</i>			
<i>On January 14th 1760</i>			
<u>08</u>	<i>Real Estate Owes</i>		
14	<i>To Masayuki</i>	<i>R\$ 71\$400</i>	
	<i>For the purchase of a piece of land measuring 50 x 120 m, which I agreed to pay in 10 months at R\$ 7\$140 per month.....</i>		<i>71 400</i>

The goods the Merchant owned were indicated as part of his own Capital or what he owned to third parties. On the debit side, both the goods (basically real estate and land) he owned when he started the business, whose valuation should be based on a "**prudent evaluation**", and the goods purchased later were registered, the latter valued at their cost. Goods received in the form of inheritance or donations were also registered in this account, and their value was also determined.

The recommendation to use "prudent evaluation" intended to curb the Merchant's impulse to over-value his assets. The aims pursued at that time continue until today, in accordance with Iudicibus (2000, p. 62, author's translation): "conservatism should be understood as a vocational element of the profession and science, with a view to disciplining the natural enthusiasm of some business owners and managers when presenting the entity's perspectives".

The reason for this prudence, although not expressed in the course book, was to prevent the Merchant from believing that his Capital was greater than what he actually owned. And what would be a prudent value for his goods? Although the course book does not give this answer, it seems reasonable to suppose something close to what we call market value today.

On the other hand, due to the lack of income accounts, spending on goods were added to their book value, while any resulting revenues served to recover their value. As for the occasional valuation

or devaluation of the good, these were recognized when Profits and Losses were determined through a revaluation, that is, through a new “prudent evaluation”. Profits or losses deriving from this new value were registered in the Profits and Losses account, as demonstrated further ahead, in the topic related to the determination of the Balance.

Spending on maintenance, repairs and taxes on these goods were also debited to this account. On the credit part, revenues from rent, sales and any real estate donations were entered.

5) Chattel Account

Page 6 of Journal Num. A			
On March 24th 1760			
09 17	<i>CHATTELS</i> Owe To <i>NELSON</i> R\$ 2\$900 For the purchase of a five-meter mahogany counter for use in my store to pay in 60 days	2	900

This entry informed on the goods the Merchant owned as part of his Capital or what he owed to third parties. Like Real Estate, the initial value was based on an evaluation and any further inflows at their cost. Any sales of these items were credited. Furniture of the house or store was also registered in this account, as well as silver or gold and other valuable items.

6) Interest (Investment) Account

Page 5 of Journal Num. A			
On March 19th 1760			
05 02	<i>CIA GERAL DE COMÉRCIO DO GRÃO PARÁ E MARANHÃO</i> Owe To Cash R\$ 20\$000 For the purchase of four shares at 5\$000 rs each which I paid in cash on this date	20	000

Interests in this or that business is a generic denomination, equivalent to what we call Investments today. In the Journal and Daybook, each business should be identified nominally. Any shared the Merchant owned “in a business of greater value” were registered in this account, as well as the part of the results of this business he was entitled to. Whether he or third parties administered the business did not matter. If, at the start of his business, the Merchant already owned a share in a business, this share was considered part of his Capital (recognized by debiting Interests in the Business and crediting Capital). Any credits registered in the interest account resulted from the partial or full sale of the share or any net yield obtained.

Being credited to the same account, the results obtained in the business reduced the investment or, more adequately, sort of recovered the amounts invested. Another aspect is related to the expression “in a business of greater value”. In the mid-18th century, Portuguese publicly traded businesses were only the *Companhias de Comércio*, which were undoubtedly larger than the current activities of Merchants at that time. Nevertheless, possibilities existed to invest in businesses in other European countries. In France and Holland, stock exchanges were an established practice in the mid-16th century (CHANCELLOR, 2001) and accessible to any person with resources, which created this possibility for Portuguese merchants willing to do so.

7) Other General Accounts:

Page 8 of Journal Num. A			
On June 11th 1760			
<u>02</u>	Cash Owes		
06	To OTHER GENERAL ACCOUNTS	R\$ 2\$050	
	For the sale of a cart and a work animal I sold for cash.....		2 050

These accounts were specifically connected with operations to support the Merchant's activities, like the purchase and sale of livestock (draught animals), slaves, cattle, etc. Any values normally were not high.

8) Almost Property Account:

Page 8 of Journal Num. A			
On June 19th 1760			
<u>07</u>	INTERESTS Owe		
2	To Cash	R\$ \$250	
	For interests on 20\$000 IRAN lent me at 5% and I paid him the principal today with three months of credit.....		250

In this account, the Merchant debited the interests paid and credited those received from third parties, normally resulting from loans.

It is highlighted that this account was treated separately because the nature of these inflows and outflows was not part of the business. It contains a characteristic that is very similar to the account we call Net Financial Revenues today, except that the latter is treated as operational income, while the former was detached from the operation.

9) Business Spending Account:

Page 6 of Journal Num. A			
On March 31st 1760			
<u>11</u>	BUSINESS SPENDING Owe		
02	to CAIXA	R\$ 2\$350	
	Which I paid for this year's contribution to the Mesa do Bem Comum dos Mercadores de Retalho		2 350

The expression Mesa do Bem Comum dos Mercadores de Retalho refers to the Public Service of the Portuguese government responsible for retail activities.

In this account, freight expenses for delivery or receipt purposes were debited, as well as goods traded, external salesmen's salaries, shop or warehouse rent, taxes, showcase cost and "other expenses" related to the business. It should be observed that, although the method did not consider income accounts, the expense concept is explicitly mentioned in this account. The term Showcase refers to samples of the items available for trade; normally, the external salesman, a kind of commercial representative, took the showcase on his travels to sell in different places than the store location.

10) Profits and Losses Account

<i>Page 10 of Journal Num. A</i>			
<i>On June 30th 1760</i>			
<u>10</u>	<i>PROFITS AND LOSSES Owe</i>		
3	<i>To INVENTORIES</i> <i>R\$ 1\$300</i>		
	<i>For a piece of cloth that went missing from the store</i>	<i>1</i>	<i>300</i>

This indicated a Capital increase or decrease. All accidental gains, i.e. not deriving from the Merchant’s operational activity, were credited. Similarly, accidental losses and gifts, donations and other good outflows that did not result in any revenues were debited. This account was only used to verify the result the Merchant obtained. The mechanisms of its use will be described under the Balance item.

11) Private Accounts:

<i>Page 3 of Journal Num. A</i>			
<i>On February 15th 1760</i>			
<u>03</u>	<i>INVENTORIES Owe</i>		
18	<i>To REINALDO</i> <i>R\$ 10\$500</i>		
	<i>For 10 pieces of English brocade I bought at R\$ 1\$050 for payment in 4 months</i>	<i>10</i>	<i>500</i>

Accounts were open for each of the persons the Merchant bought from or sold to on credit, provided that these transactions took place rather frequently.

The private accounts indicated the merchant’s active assets and liabilities. He calls active debts what he is owed and passive debts what he owes. Passive debts constitute alien Capital deposited in the hands of the merchant which he should legally return. (SOUZA, 1765, p. 40, author’s translation)

Payments to the person declared in the title of the account were debited and what was received from this person was credited.

The characteristics of this account are the same as the “supplier” and “clients” accounts today. The sole difference is that, if the merchant bought from and sold to the same person, one single account would exist to enter receipts and payments, instead of indicating him as a supplier in one account and as a client in another.

12) Various Debtors Account

<i>Page 3 of Journal Num. A</i>			
<i>On February 16th 1760</i>			
<u>15</u>	<i>ERNESTO RUBENS Owe</i>		
9	<i>To CHATELS</i> <i>R\$ 16\$000</i>		
	<i>For the purchase of 60 pieces of Chinese porcelain tableware to pay aos costumes da praça</i>	<i>16</i>	<i>000</i>

In this account, the debts were entered of those people of whom the Merchant believed they would pay within a few days and with whom he negotiated sporadically. Today, it would be equivalent to Other Accounts Receivable.

13) Various Creditors Account:

<i>Page 3 of Journal Num. A</i>			
<i>On February 18th 1760</i>			
<u>02</u>	<i>Cash Owes</i>		
20	<i>To ELISEU</i>	<i>R\$ 13\$300</i>	
	<i>Which I borrowed to pay in days</i>		<i>13 300</i>

This account was similar to the previous account, but served to register the Merchant's debts to people he eventually did business with. Today, it would be equivalent to Other Accounts Payable.

After explaining the nature of all accounts and before moving on to the Ledger accounts, the course book indicates how to revert mistaken entries.

<i>Page 7 of Journal Num. A</i>			
<i>On June 10th 1760</i>			
<u>25</u>	<i>Lázaro Owes</i>		
3	<i>To INVENTORIES</i>	<i>R\$ 80\$625</i>	
	<i>To revert an addition of this amount that was mistakenly entered in this Book last May 15th</i>		<i>80 625</i>

To conclude the topic on the Journal, the course book recommends most careful and tidy writing and the use of a ruler to guide the four lines, for the sake of "greater perfection".

5.3 The Ledger

The justification for its denomination in Portuguese (*Livro Razão*) is that this book "gives the general Reason in the state of the Merchant's businesses and properties or delays" (SOUZA, 1765, p. 58). The Italians called it the Master Book and the French the Big Book.

For the bookkeeping of the Ledger, a larger book made of high-quality paper was needed. Each page should contain two lines on the left and three on the right, as indicated in Figure 2.

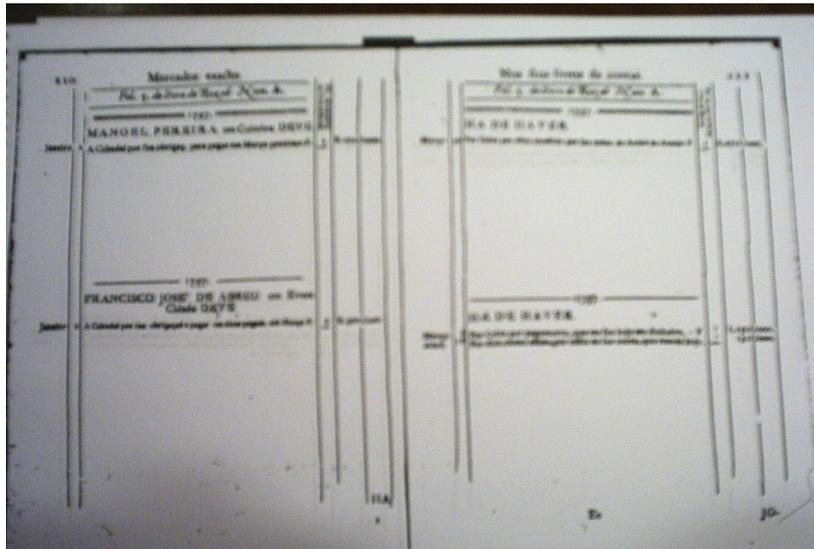


Figure 2: Reproduction of the left and right pages of the Ledger, taken from the book *O Mercador Exacto*.

The utility of the Ledger accounts and, consequently, of accounting itself, is perceived as follows:

the different accounts of a Merchant’s Ledger Book all serve to show, on the one hand, the importance of Capital plus or minus any profit or losses in the business; and on the other, to inform about the goods that compose this capital (SOUZA, 1765, p. 130-1, author’s translation)

This leads to the conclusion that, at the time, the utility of accounting information was very limited, like what happened in England, where “it did not seem to make much sense to elaborate periodical balance sheets as a way to measure business performance, except to measure the merchant’s wealth” (RICARDINO, 2004, p. 89, author’s translation).

In the course book, the Ledger is directly connected with the expression ‘fundamental principles of double-entry bookkeeping’. At first, these words are impressive, mainly when reminding that the course book was written by hand in 1765 and that the need to provide accounting with theoretical support through principles only took place in the United States in the 1930’s. In Brazil, the expression Fundamental Accounting Principles was adopted as from 1993, in CFC Resolution No. 750/93.

Despite this surprise, one should not imagine that these “principles” contain doctrinarian essences, like the principles supporting accounting today. In practical terms, only two “Fundamental Principles” supported this double-entry system 250 years ago, according to Souza (1765, pp. 23-4, author’s translation):

1º

Use two kinds of accounts in the Ledger, general accounts representing the merchant and other private accounts representing the people who are his debtors or creditors. Any of these accounts should be separated between Revenues and Expenses.

2º

Launch each addition of Revenue or Expense (whether money or any other effects [goods]) in two different accounts; the Revenues in one and the Expense in another. All general or private accounts are launched in the Ledger Book, distinguished by their adequate titles.

The general and private accounts mentioned in the 1st principle were exposed in the previous topic. The additions of Revenues and Expenses in the 2nd principle will be addressed next.

5.3.1 The bookkeeping of the Ledger book

To register a transaction in the Ledger, one had to go through the pages until finding that page corresponding to the account that would receive the entry. On the left page, Inflows were registered and, on the Right, the Outflows. This means that the Ledger did not use the first page of the book, as the bookkeeping demanded two pages.

The title of the left page was DEVE (owes) and that on the right IS ENTITLED TO HAVE. At this point, the author provides an important explanation and uses the expressions debit and credit for the first time. According to Souza (1765, p. 25, author’s translation):

These words OWES and IS ENTITLED TO HAVE proceed from the fact that, in bookkeeping, the person who receives is called the debtor and the person who spends the creditor.

Hence, OWES and IS ENTITLED TO HAVE or DEBIT and CREDIT are equivalent words and RECEIVES and SPENDS or REVENUE and EXPENSE, although only the first are used in double-entry Bookkeeping. This alert should always be kept in mind to avoid confusion.

Bookkeeping of the Ledger had to adopt the following sequence: the first account to be transferred to the Ledger was the first registered in the Journal and so forth. Debits were registered on the left page. In the first column, at the left of that page, the month was indicated. In the second column, the day. The third column indicated the credit account that entry corresponded to, preceded by the letter “A” (to). To give an example: “To Pedro”, “To Cash”, “To Inventories”, etc. In case of various creditors, “To Various” would be written. After registering the credit, the nature of the transaction was indicated “as succinctly as possible”, attempting not to surpass one line, “unless in cases of high need”. The manuscript gave no further explanation about these “cases of high need”. In the next-to-last column, the page number where the counterpart of the entry was located in the same Ledger was indicated, as a practical form of control. In case of different creditors, “a small horizontal comma” was used to represent this plurality. The final column indicated the value of the transaction.

To indicate that the entry had already been made, a point was placed in the Journal right beside the number that indicated the page of the Ledger where the corresponding transaction had been transcribed. The same procedure was applied to the counterpart, regarding the bookkeeping process and the indication of the entry registered.

To illustrate these facts, the following is an example of an entry transcribed from the Journal to the Ledger.

Example of an entry in the Journal:

<i>Page 2 of Journal Num. A</i>			
	<i>On January 14th 1760</i>		
02 19	<i>CASH Owes To ARJOVALDO R\$ 41\$200 Who lent me at an interest rate of 5% for six months, for which I wrote down my obligation on this day [signed a document hiring the loan].</i>		41 200

The same entry, transcribed in the Ledger, would be as follows, reminding that the latter contains two pages, one for the debit and the other for the credit:

Page 2 of Ledger A					Page 2 of Ledger A					
1760					1760					
Jan	14	CASH OWES To Ariovaldo for the loan	19	41	200			IS ENTITLED TO HAVE		

Page 19 of Ledger A					Page 19 of Ledger A						
1760					1760						
		ARIOVALDO				Jan	14	IS ENTITLED TO HAVE From CASH	2	41	200

As observed, the name of the account (Cash and Ariovaldo) is always indicated on the left-hand side, on the page corresponding to the debit.

No. 19, written in the fourth column of the Cash register, indicates that the counterpart of the entry, Ariovaldo, was registered on page 19 of the Ledger, as well as No. 2, indicated in front of the expression Is Entitled to Have; in the second entry, it indicates the debit on page 2. Today, this entry would be indicated as follows:

D – Cash 41\$200
 C – Ariovaldo 41\$200

The bookkeeping process was not only lax, but also enhanced the occurrence of transcription or classification errors and repeated or omitted entries For all of these reasons, the Teacher recommended that:

In the Ledger, one should write with great calmness and cleanliness. Due to one and another circumstance, it is due to avoid errors, which is the essential goal. In case of some small error or blot, this will be scraped with a pocketknife, after the paint has dried well, rubbing that place with rosin powder (SOUZA, 1765, p. 61, author’s translation).

It should be highlighted that, at that time, writing was done with ink applied to the tip of a quill, normally a goose feather, which explains the term blot. The rosin in the citation refers to a kind of resin that served to repair paper after scraping.

In case the error was described afterwards, and if it was not interesting or possible to scrape it, the recommendation was to write the following words on the same line as the entry, on the debit as well as the credit side: “Without effect”. On the place where the transaction value was indicated, the symbol Ø was used. Then, the corresponding reversal was processed but, as the author alerted “these errors and this remedy had to avoided to the maximum” (SOUZA, 1765, p. 32, author’s translation).

Each volume of the Ledger had to be accompanied by a small book or notebook that served as an index. On page “A”, all accounts that started with the letter A were registered, indicated the page number of the Ledger where the transactions occurred in that account were registered, and so forth.

Finally, concerning the Ledger, the method recommended that, in cases of few entries on one page, this could be closed off after being divided by two horizontal and parallel lines, under which the name

of the new account was written. If, however, one page was insufficient to register all debits or credits for that period, then a new page was started. At the end of the completed page, the following was written: continues on page X and, on the new page:

continues the Debit/Credit of page X.

6. THE BALANCE

According to the definition at that time, “the Balance is a mercantile word that in general means account adjustment, but has different particular meanings, according to the different objects it applies to” (SOUZA, 1765, p. 72, author’s translation).

Two balances were recommended: the Cash Balance and the Balance of the Store or General Balance.

The Cash Balance was but the physical counting of available money, confronting the amount verified with the respective accounting balance. The course book recommended elaborating the balance every eight days and that “it is that necessary that experience teaches that there is no other way to avoid errors or revealing the mistaken entries that always happen, even to the most experienced ones” (SOUZA, 1765, p. 72, author’s translation).

As for the Balance of the Store, which originated the determination of the Merchant’s activity results, the recommendation was to elaborate it at the end of each year.

The account balancing process was defined as the equality between the total amount of the Debit and that of the Credit. When these amounts were not the same, the difference was called “rest”.

According to Souza’s definition (1765, p. 74, author’s translation), “the Balance of the Ledger is the sum of the rests of the accounts that are debtors and the sum of the rests of the accounts that are creditors”. This assertion is fundamental to understand the elaboration process of the balance.

To demonstrate this process, some accounts will be used in “T” form. It should be reminded that the denomination “ledger” or “T” account, used today, was not used at that time, although they were present in the Merchant’s Reason. This was illustrated by the Ledger and the space between the pages, with the vertical indication of the “T” account, as demonstrated next:

Ledger		“T” Account	
OWES	IS ENTITLED TO	Débito	Crédito
	HAVE		

6.1 How to Elaborate the Balance

The first measure to prepare the balance was to add up the debits and credits of each account and, then, register one against the other to check whether a balance existed and whether this was a debit (Owes) or credit (Is Entitled to). The accounts in which the difference between debits and credits was equal to zero were already balanced and excluded from the final balance.

The nature of the remaining accounts should then be analyzed for the sake of the final demonstration. In the 18th century, only debit or credit accounts existed. The concept of asset and liability was only related to the debts, which were classified as active and passive debts.

The second step of the process was to identify the balance of the Cash account. As demonstrated in the following example, when confronting debit and credit, a debit of 86\$932 remained in cash.

Cash	
OWES	IS ENTITLED TO HAVE
141\$253	54\$321
86\$932	

In the third phase, the Merchant initially determined the balance of the Business Spending account. The balance was debited (because of its nature, it would be difficult for the account to have a credit balance) to the Inventory account and the credit was registered in the same Business spending account, so as to zero it, as follows:

Business Spending		Inventories	
OWES	IS ENTITLED TO HAVE	OWES	IS ENTITLED TO HAVE
16\$975		324\$459	311\$230
	16\$975	16\$975	
		341\$434	

The aim of this entry was to attribute that part of spending to the goods purchase that was necessary to purchase it, as well as the spending needed to sell them. We intentionally used the word “spending” instead of “cost”, because the latter was only applied to industrial item, as observed further ahead.

Next, the Merchant should determine the balance of the Inventory account. In the debit column, he identified the amount of goods purchased in one year and added the Business Spending and, in the credit, the total sales in the same period. The difference between both corresponded to the account balance.

The next step was to determine unsold inventories that remained in the store at the end of the year. The criterion for their valuation was the cost price, as indicated here:

After making a budget of what they are worth, more or less by their cost, the amount of the rest of the account [balance] will be discounted from their value, and the remainder is the profit made on the inventories [goods] sold, which will be transferred to the Profit and Loss Account... (SOUZA, 1765, p. 80, author’s translation)

In summary, the text indicated how to calculate operational income directly and without using income accounts. Although different from what is practiced today, the process is both simple and efficient.

First, a new Inventory account was opened and the value determined in the inventory, let us say 85\$204, was debited to this account, turning into the initial account balance for the next year. The counterpart was added to credit balance in the Inventory account for the year that was being closed off. The difference between the debit and the credit (Owes and Is Entitled to Have) was the Merchant’s profit.

Inventory (initial balance in 1761)		Final balance in 1760	
OWES	IS ENTITLED TO HAVE	OWES	IS ENTITLED TO HAVE
85\$204			293\$230
			85\$204
		341\$434	378\$434
			37\$000

In this example, the 37\$000, indicated in the column *Is Entitled to Have* of the Inventory account, in 1760, corresponded to the Merchant's profit in that year, only considering the trading of his inventories.

Next, the Merchant closed off the Inventory account for 1760 through a debit and credited the Profits and Losses account, as follows:

Inventory Final balance in 1760		Profits and Losses Year 1760	
OWES	IS ENTITLED TO HAVE	OWES	IS ENTITLED TO HAVE
37\$000	37\$000		37\$000



The next account to be balanced was Property. After having purchased a building for 71\$400, the Merchant spent 7\$800 on reforms that were added on the debit side of this account. The rent of this building provided 6\$200 in revenues, indicated under *Is Entitled to Have*. When confronting *Owes* with *Is Entitled to Have*, he determined a debit balance of 72\$000.

This figure was not definitive for balance purposes. According to contemporary techniques, the owner of the building should prudently value it at that moment. Supposing that the good had a market value of 73\$500, he would recognize a gain of 1\$500. Thus, the account balance became 73\$500 and the adjustment would be accounted for as follows:

Property		Profits and Losses	
OWES	IS ENTITLED TO HAVE	OWES	IS ENTITLED TO HAVE
72\$000			37\$000
1\$500			1\$500
73\$500			38\$500

The same procedure applied to the Chattel account. Let us suppose, also, that the Merchant had purchased these goods for 2\$300 and sold all items in the account for a slightly lower amount than the purchase value, let us say 2\$220. This would result in a \$100 loss, to be recognized in the Profit and Loss account. To account for the loss and zero the Chattel account, the following was done:

Property		Profits and Losses	
OWES	IS ENTITLED TO HAVE	OWES	IS ENTITLED TO HAVE
2\$300	2\$200	100	38\$500
\$100	\$100		38\$400



At that moment, without any other account balance to make, the Merchant verified that his profit, at the end of the year, equaled 38\$400, to be added to the Capital account. For this transfer, the Profit and Loss account was debited and the Capital account credited, adding the profit to the balance, as follows:

Profits and Losses		Capital	
OWES	IS ENTITLED TO HAVE	OWES	IS ENTITLED TO HAVE
	38\$400		231\$736
38\$400			38\$400
			270\$136

In the fourth phase, the Merchant identified the accounts to which no changes had been made during the year. Let us hypothesize, merely to close off the balance made further ahead, that the following accounts remained unchanged: Interests in Other Businesses, represented by the stock interest in *Cia de Comércio do Grão Pará e Maranhão* (20\$000), Various Debtors (10\$500) and Various Creditors (6\$000). Although the proposed example only attempts to demonstrate the most common mercantile activity accounts, others could be adopted according to the Merchant's needs or the area he was active in.

Finally, the Merchant should heed some aspects before the Balance determination process, mainly regarding doubtful debts. In view of this hypothesis, the instructor recommended the following in his course book:

In the private accounts, the merchant will examine the active debts from which nothing can be accepted, because they are dead or in debt, without leaving goods or because they donated them, or for another similar reason. These accounts he will close, transferring the rest to the Profit and Loss balance.

Then, he will examine bad active debts; and debts about which he has little hope, he will close those off, transferring the rests to the balance of an account opened under this title = Doubtful Debtors. (SOUZA op. cit, p. 82, author's translation)

This is the origin of what we call Estimate for Loss of Doubtful Credits today. At that time already, the Merchant conservatively attempted to adjust his receivables to the amount he actually expected to receive.

After analyzing all accounts, and without any doubts as to the realization of his receivables, the Merchant's Balance would be as follows:

Balance of Ledger A
Until December 31st 1760

Debtors			Creditors		
p 2	Cash	86\$932	p 1	Capital	231\$736
p 3	Inventory	85\$204	p 10	Profits and Losses	38\$400
p 8	Property	73\$500	p 15	Various Creditors	6\$000
p 5	<i>Cia de Comércio do Grão Pará</i>	20\$000			
p 20	Various Debtors	10\$500			
		276\$136			276\$136

The expressions *Debtors* and *Creditors* in the description of the Balance of Ledger A were taken from the original text of the manuscript. In the *Credit* account list, the balance of the *Profits and Losses* account is indicated separately from the *Capital* account, merely for the sake of demonstration.

If by any chance the Merchant had different partners, after determining the balance, profit for the year would be distributed. Amounts were distributed proportionately to each partner's participation. It is interesting to observe the accounting treatment adopted to pay this profit: "As observed, these payments are all debited from the General Capital Account and credited to Cash, where the money is taken from" (SOUZA, 1765, p. 137, author's translation).

As the profit was only distributed after the result of the Profit and Loss account had been incorporated into Capital, the distribution served to net the capital account, i.e. deducting the distributed part.

In the course book, a final recommendation, related to the secrecy of Ledger bookkeeping, closes off the topic:

The Ledger should be written reservedly, or outside the store, or in a separated place by the same Merchant, or by the person he most trusts on a calm occasion, and should be closed in the Merchant's power when no writing is necessary. All of this care is necessary with a book that provides the distinct reason of the state of business, and it is not convenient for anyone else to know except for the same Merchant. (SOUZA, 1765, p. 89, author's translation)

7. THE APPLICATION OF THE DOUBLE-ENTRY METHOD TO OTHER ACTIVITIES

After concluding the accounting treatment of commercial activities, Souza makes room for other business forms. These are: General Companies, Factories, Houses of Nobles and other Rich Persons.

The considerations about the Houses of Nobles and other Rich Persons, and about the General Companies, a general designation for societies with different partners are not particularly interesting, except for one mention in the latter's explanation, which suggests calculating exchange rate variations. According to the author:

The distinction we made in the Correspondents' accounts [...] is not totally necessary, except when the business of our account has to be calculated and in the currency of the Correspondent's country, and that is different from our Country's [Portugal] currency. We will use this distinction, however, in the proposed example of the Merchant for the Reign and Conquests, with a view to further clarifying the accounts and providing knowledge on this mercantile writing, whose practice will be fundamental in the final example of the Bookkeeping, which we had proposed to apply to the Commerce with Foreign Countries. (SOUZA, 1765, p. 130, author's translation)

Unfortunately, that example is not presented in the course book. Talking about exchange variation at that time is not inappropriate though, as the School of Commerce taught the conversion of currencies, weights and measures. Souza himself published a currency conversion table entitled "*Das 36 Praças Cambistas a Dinheiro Português*". What could not be checked, though, is whether any accounting treatment was destined for these variations and, in this case, what entry would be indicated.

7.1 Industrial Accounting

Although Portugal strongly depended on its colonies in the mid-18th century and was in the initial phase of learning commercial practices, factory activities, although rudimentary and artisanal, was not insignificant.

The existing Portuguese industry, whether wool, silk or linen weaving, whether soap manufacturing, glass, leather, transformation of iron and other metals, etc., was usually based in the workshop. In weaving, the only machine was the traditional manual loom, which often did not function at the workshop, but at the craftsman's house, if that

was the case. [...] Nevertheless, more important industrial units existed than the simple workshop. Especially in the rope, tobacco and wool industry, manufacturing was already present with its big buildings, many officers working in the same place, thus facilitating the purchase of raw materials, warehousing and the distribution of manufactured products. (MACEDO, 1982, p. 107, author’s translation)

According to Souza, independently of its size, industrial activities could be accounted for according to the same rules applicable to mercantile accounting “where everything is reduced to buying and selling” (SOUZA, 1765, p. 140, author’s translation). At the factory, he weighted, different materials needed for its activity were also purchased, but they were only sold after being converted into another product that “change the name, quality and price”. (SOUZA, 1765, p. 140, author’s translation)

If, at the store, the Merchant’s aim was to know his equity variations, as indicated earlier, at the factory, this aim was significantly enlarged:

As the object of a factory’s accounts is not only to know what one gains, but also to recognize what each material costs in its different preparation or processing phases [manufacturing phases], with a view to studying new ways to save money and improve work, making the work [product] cheaper and, thus, more sellable.... (SOUZA, 1765, p. 140, author’s translation)

Concentrated on the future and aimed at preparing professionals who are capable of working in larger businesses, the didactic example of an industrial activity, adopted in the classrooms of the School of Commerce, was a wool industry where the wool was purchased “raw”.

The choice of the activity was not random. Textile activities, independently of their size, were widely practiced in Portugal, far earlier than Pombal. Two significant examples are the *Real Fábrica de Sedas do Rato* (in the suburbs of Lisbon) which, besides its large central building, had small attached or dependent workshops, and the *Real Fábrica de Lanifícios*. Small textile activities proliferated in Portugal, mainly in the Trás dos Montes region, where about 830 silk and wool manufacturers were counted at the end of the 18th century (COLUMBANO apud MACEDO, 1982, p. 111).

The accounting of the wool factory was based on the cost accumulation of each process phase – wool, conduction (freight), washing, carding and “others that take place until the wool is delivered to the spinners [women who spun (wove) the wool]”. The sum of these costs was debited to an account denominated “Raw Wool”. Production losses were also debited to this account, corresponding to the monetary valuation of the difference between the weight of the purchased wool and that of the processed wool.

The total amount of manufacturing costs divided by 459 indicated the cost of each pound of wool produced. The transfer from the “Raw Wool” account to the “Spinners” account was done by crediting the amount of the pounds from the first and transferring it to the second. The term Pound refers to the antique measure and weight that was used in Portugal and Spain and corresponds to 459 grams.

For the sake of a better visualization, the course book offers the following example:

<i>Raw wool Owe</i>			<i>Are Entitled to</i>		
100	<i>Which card at 1\$800</i>	180\$000	50	<i>Pound f/ spinners at 2\$860</i>	143\$000
150	<i>Idem at 2\$000</i>	300\$000	200	<i>Pound Idem at 2\$820</i>	564\$000
350	<i>Idem at 1\$750</i>	612\$500	150	<i>Pound Idem at 2\$920</i>	438\$000
	<i>Driving, washing, carding</i>	50\$000			
600		1.142\$500	400		1.145\$000

Two aspects are noteworthy in this process. The first is the division of the factory into departments. The second aspect refers to the difference between the final values of the produced items and the value at which this item is transferred to the department in charge of the following phase in the process. As observed, although the mean production cost is approximately 1\$904, corresponding to 1,142\$500 / 600, the output value of the account is substantially higher and, for each output, there is a different value. In fact, further ahead, the same text clarifies that what we call “transfer price” today was already practiced at that time! According to Santos (1998, p. 173), the transfer price can be understood as a “price debited per company segment to a product or service it provides to another segment in the same company”.

The explanation for this practice is that the entries should continue until the end of the year. According to Souza (1765, p. 142) “... the difference between the cost and spending on raw wool, **at the value judged** for the wool that was transferred to another account, is registered in profits and losses...” (author’s italics).

This reveals a clear conceptual distinction between cost and spending (expense) for the sake of quantifying the amount spent on the manufacturing, and also that the transfer price was applied to each of the production process accounts.

To continue the manufacturing process, when the wool was transformed into tissue, the production was credited to the “Spinners” account and debited to the Inventory account or, in case different kinds of tissue were produced, one account should be created for each type. The raw material, which was calculated in pounds until then, became calculated in cubits after being transformed into tissue, a measure equivalent to 66cm.

Concerning the manufacturing costs we call indirect today – rent and salaries related to general factory services – these were debited to an account called General Spending, which at the end of the year was transferred to the Inventory account or taken “divided [apportioned] proportionately to the accounts of different tissue genders [types], as this increases their cost” (SOUZA, 1765, p. 143, author’s translation).

Finally, the author indicates that other accounts could be created according to the needs of each activity and that the method used for wool could serve for any other factory. According to him, “if the bookkeeper has any practice, he will have no difficulties to apply the general rules of this Art to any case he may be offered, which [...] will be similar to the cases he has practiced” (SOUZA, 1765, p. 145, author’s translation).

This explanation closes off industrial accounting teaching, as well as the first part of the course book, which continues with Arithmetic Applied to Commerce, whose analysis goes beyond the scope of this paper.

8. CONCLUSION

In this paper, the double-entry method was analyzed that was taught at the School of Commerce, which started its activities in 1759, using as the primary source the course book text dictated by the headmaster of the School, João Henrique de Souza, to the student José Feliz Venâncio Couto, in 1765, with a view to appointing differences and similarities with the accounting criteria adopted today.

The following main differences can be appointed:

- The initial base to register the transactions was done in a book called “daybook”, which served as a draft before the permanent entries into the Journal and Ledger.
- As expected, the separation between the entity and the owner did not exist.
- The cash basis was adopted, and not the accrual basis.
- There were few bookkeeping accounts and the income statement did not exist.
- There was no distinction between assets and liabilities.
- In the ledger, debits were placed on the left page and credits on the right.
- The balances of other accounts were accumulated in an account called Profits and Losses, and the result of the period was determined through the difference between debit and credit.

As for similarities with current practices, the following can be highlighted:

- Assets were revalued at the end of the year to make their value compatible, presumably with the market value. The principle of prudence was also known, so as not to overvalue these assets.
- Losses and donations were written off at their cost.
- Investments in other businesses existed and were accounted for under the name “Interests in this or that business”.
- Financial revenues and expenses were separated from operational revenues and expenses and compensated for in the same account.
- Trading expenses were transferred to a specific account denominated “Business spending”.
- Receivables that admittedly would not be recovered were written off as losses. Curiosity: receivables with some possibility of receipt, although remote, were transferred to an account denominated “Doubtful debtors”.
- Contemporary accounting recognized exchange variations in operations accomplished in different currencies.
- The transfer price concept was already known and practiced in the accounting treatment of industrial activities.

Finally, it is worth registering that it is surprising that concepts like exchange rate variation, transfer price, cost as a value base and writing off of non-receivables had already been incorporated into contemporary accounting practices.

As for the little knowledge about accounting history, a small excerpt from the song “*O tempo não para*” should be reminded:

*Eu vejo o futuro repetir o passado [I see the future repeat the past],
Eu vejo um museu de grandes novidades [I see a museum of great novelties].
Cazuza*

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