

# EVOLUTION OF ECONOMIC THINKING ON THE BALANCE SHEET

## EVOLUȚIA GÂNDIRII ECONOMICE CU PRIVIRE LA BILANȚUL CONTABIL

APOSTOL C.

“Alexandru Ioan Cuza” University of Iași, Romania

**Abstract.** For today generations, and for those to come, past research constitutes a wellspring of rich documentation and guidance. With the socio-economic developments recorded during the history of mankind, the study of balance sheet was a real interest to specialists in the field, who established the theoretical bases of it, revealing the it's pragmatic functions, process currently no outstanding. Scientific research a balance sheet has developed in time eminent doctrines, clarifications or innovations, leaving open the art and science to any honest test for the truth and light to continue the search, secure source of progress. Knowledge in the balance sheet as a universal and necessary in any system of accounting, regardless of time and space, there are objective and purpose and value of this knowledge depends on economic and social system which they legitimize. The requirement elaboration of the balance sheet is shown by mathematician Luca Paciolo, with crystallisation of the accounting system. But, although the balance sheet is known and used for centuries in accounting practice, it becomes the subject of special investigations at the end of the century just past.

**Key words:** balance sheet, financial statements, accounting

**Rezumat.** Pentru generațiile de astăzi, ca și pentru cele ce vor urma, cercetarea trecutului constituie un izvor neseecat de bogată documentare și orientare. Odată cu evoluția social-economică înregistrată pe parcursul istoriei omenirii, studiul bilanțului a constituit un real interes pentru specialiștii în domeniu, care au stabilit bazele teoretice ale acestuia, dezvăluindu-i totodată funcțiile pragmatice, proces neîncheiat nici în prezent. Cercetarea științifică a bilanțului a dezvoltat în timp eminente doctrine, deslușiri sau inovații, lăsând deschis teritoriul de artă și știință pentru orice încercare onestă de punere în lumină a adevărului și de continuare a căutărilor, izvor sigur al progresului. În cunoașterea bilanțului, ca instrument universal și necesar în orice sistem de contabilitate, independent de timp și spațiu, există temeieri obiective, iar sensul și valoarea acestei cunoașteri depind de sistemul economic și social pe care îl legitimează. Cerința întocmirii bilanțului este arătată de matematicianul Luca Paciolo, odată cu cristalizarea ca sistem a contabilității. Dar, deși bilanțul este cunoscut și utilizat de veacuri în practica contabilă, el devine obiectul unor cercetări deosebite abia la sfârșitul secolului trecut.

**Cuvinte cheie:** bilanț contabil, situații financiare anuale, contabilitate

## INTRODUCTION

Balance analysis presupposes referring to a multitude of meanings and significations, differentiated according to the nature of the methodological

references that can be used for acquiring, understanding, judging, and interpreting the terms that explain, motivate, and legitimize the object under research, the interested subject, the social process that lays at the center of human action that formalizes and prioritizes principles, norms, and basic rules, starting from which a model for reality representation ensures appropriate co-operation and understanding of the dominant characteristics in relation to the environment, space, and time.

## MATERIAL AND METHOD

The mathematician Luca Paciolo presents in his work “Summa de l’Arithmetica, Geometria, Proportioni e Proportionalita” (1494) the necessity of drawing a balance sheet, as it became an accounting system based on double records. However, although the balance sheet has been known and used for centuries in accounting practice, it became the object of dedicated research only at the end of the previous century (Horomnea E., 2004). The Belgian Simon Stevin “is important as the first author who has scientifically posed the problem of the necessity for an annual balance sheet” (Demetrescu C. G., 1972). Research regarding the role and functions of the balance sheet has multiplied heavily ever since, resulting in a large number of balance sheet theories.

To achieve this article were undertaken studies on various documentation describing the form and content of balance sheet, following the evolution in the context of changes that have occurred over time on economic, financial, political and social.

## RESULTS AND DISCUSSIONS

The term *balance* comes from the Italian original *bilancia* (balance, scale), which originates in the Latin words *bis* and *lanx*, meaning a scale in balance.

At the origin of the traditional accounting system, the balance did not have any explicit determination, separate and distinct from the statements system. Closing the accounts presupposed an inventory, and the inventory summary, as a statement, has led certain researchers to the interpretation that, historically, the balance sheet appeared relatively late.

In Italy, considered the motherland of accounting, there appeared for the first time issues regarding the balance sheet. The 1408 records of the Bank of St. George of Genoa contain the note “Bilantium creditorium debet nobis in billantio debitorium in CXIII”. Also, Desimoni mentions that in the General Ledger of the commune of Genoa, in 1340, the name of *billantium* was used to refer to the balance sheet.

The notion of balance was used by Cotrugli in his work, and later by Domenico Manzoni in 1554, by the authors Miossa and Radonichi in 1581, as well as by Louis Flori in 1636, who showed that the balance sheet cannot be considered a verification statement, as it was thought by certain authors of his time.

Also, in Netherlands, in feudal times, there appeared accounting papers characterized by a strong resemblance with the works of the Italians.

Jean Ympyn (1485) is considered one of the authors with the greatest influence, after Luca Paciolo, on accounting literature in the 16<sup>th</sup> century. Before him, the accountant would not consider forecast and therefore the balance sheet was incomplete, as it only contained what was certain, without being based on evaluations.

In Netherlands, an important contribution to the balance sheet was brought by the Dutch Claes Pietersz de Deventer and the Belgian Simon Stevin. Claes Pietersz de Deventer's importance is due to his improvements to the work regarding the closing of accounts and relating the balance sheet to the closing balance. The new papers also express for the first time the almost faultless rules for drawing a real balance based on the inventory and a correct re-evaluation of the existing goods. Simon Stevin poses scientifically for the first time the problem of the annual statement (in his work published in 1608), which was practically accomplished in the second half of the 17<sup>th</sup> century.

In France, there appeared papers on centralizing accounting data and using journals.

Pierre Savonne published in 1567, in Anvers, the work "Instruction et manière de tenir les livres de raison et des comptes en parties doubles" and presents the technique of writing statements, placing an accent on drawing the balance sheet using the General Ledger data, trying to define its contents. However, his theory is not complete, as he reduces the balance sheet to the roles of debtors and creditors.

Claude Irson published in 1678 the paper "Méthode pour bien dresser toutes sortes de comptes à parties doubles", having an important contribution on result statements, also using the term "balance" instead of "closing statement".

Before the French author Mathieu de la Porte, the balance sheet is cited only as a necessary instrument for closing the accounts. In 1685, he defines the contents of the balance sheet, indicating what should be presented on the left side, which he calls "Doit" ("Debt", assets) and what should be written on the right side, named "l'Avoir" ("Owned", liability).

Bertrand Francois Barreme published in 1682 "Livres des comptes faites" (Keeping Books), and he is the first author who envisions the use of the flyer balance (Bilan en l'air), a balance based on documents and drawn before the inventory, on a separate sheet and not in a book with attached pages, its only purpose being that of discovering errors.

Drawing the balance sheet becomes a systematic activity only starting with the 19<sup>th</sup> century, when the great industrial and commercial enterprises start to analyze and measure periodically their asset base, using the balance sheet and the profit and loss account.

In capitalist accounting literature, the problem of the balance sheet has been treated by numerous authors from different points of view, without reaching a unitary conclusion.

Among the French authors, Eugen Leautey and his collaborator, Adolph Guibault, in their work "La science des comptes", consider that they have

designed a fixed balance model. Concerning the balance sheet, Guibault shows that “it is the expression of an equation destined to make known the results of an industrial or commercial operation, that is, of profit or loss, computed daily, monthly, or annually, and that influences the capital involved” (1).

Another French author worth mentioning is L. Barrachin, who in 1898 published in Paris the paper “Comptabilité personnelle”, where he reaches the conclusion that the balance sheet should not include the final result of the enterprise.

In 1919, the French engineer Edouard Julhiet published in Paris the work “Cours de finance et comptabilité dans l’industrie”, mentioning that the purpose of accounting is to faithfully record the entire activity of the enterprise, by writing down in the statements all the movements that take place through the systematic grouping of these notes and by synthesizing them in the balance sheet.

Gabriel Faure, another French author, explains the notion and the contents of the statement and of the balance sheet, also making a critical analysis of a balance sheet, as well as references to inappropriate terms used in the balance sheet, such as: suspense accounts, sundries account, etc. An interesting problem that he approaches is that of unifying the balance sheets, concluding that there is a possible solution, however conditioned by setting certain rules, among which cost price evaluation of specific assets.

In 1927, L’Quesnot published in Paris the paper “Administration financière – Méthodes comptables et bilan”, examining the balance sheet as a basis for financial analysis, which he characterizes as “the expression of the situation of a company”, “a conventional statement” or a “balance account”.

Still in 1927, Albert Calmes published in Paris the work “La comptabilité industrielle”, where he also described the theory of general accounting, starting from the balance sheet. In this author’s view, “the balance expresses the same capital twice: on the left, according to the forms under which this capital is used, and on the right, according to the sources it comes from. The balance displays on the left the values that the company possesses, and on the right, the assets in excess compared to the liabilities, respectively for the creditors, so that this excess represents the net capital.” (1)

Another French author, Ed. Folliet, published in 1927 the paper “Le bilan dans les sociétés anonymes du point de vue juridique et comptable”, where he demonstrates the necessity for drawing the balance sheet, and shows that its components combine into the equation  $A = L + C$ .

In France, accounting normalization becomes more rigorous starting from 1939, acquiring new valences in time, and having at the center the conditions and ways of drawing financial statements.

During the development of capitalism, the German School imposes itself both in what concerns the development of accounting thought in general and in what concerns the development of economic thought on the balance sheet. Within this School, important contributions concerning the balance sheet have been

brought mainly by H. Nicklisch, W. Osbahr, and last but not least, E. Schmalenbach.

H. Nicklisch was concerned with problems related to opening and closing statements, the organic statement, the dynamic statement, as well as to the analysis of the causes that determine drawing periodical statements for values and financial statements.

W. Osbahr published in 1918 the work “Die Bilanz vom Standpunkt der Unternehmung”, in which he notices the existence of different types of statements, with different titles, contents, and purposes, grouped into two distinct categories: main statements and secondary statements. Osbahr also mentions the importance of evaluating the balance sheet.

E. Schmalenbach elaborates the dynamic theory of the balance sheet, which he treats in the work “Dynamische Bilanz” (Georgescu N., 1999).

After 1950, in USA, management accounting has generated the necessity for statements as “reporting”, a combination of professional skills and rapid computer processing techniques for synthesized accounting information, seen as a unit.

Accounting papers have also been published in Romania; at the beginning, these were mere translations from German and French, but other works, besides the theories of foreign authors, contain personal ideas of Romanian authors, marking the beginning of Romanian accounting thought. The first publications are issued in our country only after 1800. In 1817, “Didăscălia” is published in Iași, a paper that also included accounting rules, which had been translated from German into Greek.

In the Romanian states, balance sheets have evolved from the “Treasury codex” that recorded the state income and expenses, to balance models similar to those used in the German states in the 19<sup>th</sup> century, presented for the first time in the work of Emanoil Ion Nechifor, “Pravila Comerțială” (The commercial rules) published in 1937 in Brașov. This paper demonstrates that its author was familiar with the principles of drawing a balance sheet according to the Venetian method. E. I. Nechifor recommends writing the balance sheet once a year (Robu M. D.).

Dimitrie Jarcu published the work “Doppia Skriptura”, a translation of H. Jaclot’s “La teme des livres enseignée en vinght et une leçons sans maetre” (1828), but makes a confusion between balance and balance sheet.

Theodor Ștefănescu published the paper “Curs de contabilitate în partidă dublă” (Accounting course in double correspondence), defining accounting as a science and the art of keeping books, and the balance sheet as a mirror of the past and a guide for future operations.

Constantin Petrescu published in 1901 the work “Contabilitate și administrație” (Accounting and Administration), where he defines the balance sheet, poses the problem of the universality of its application, and shows the conditions the balance sheet must meet, concerning clarity and honesty.

Spiridon Iacobescu approaches the problem of the balance model and of regulating accounting. Other authors with a rich scientific activity include

Professor C.G. Demetrescu, who has published around 150 accounting papers and studies, Professor Dumitru Voinea, who has shown that between inventory and the balance sheet there is only a formal difference, Professor I. Evian, who has used for the first time the term of “unitary balance” and who considers the initial balance to be the basis of accounting, since it ensures the assets and liabilities for which accounts are opened (Evian I., 1947).

A special contribution to the theoretical and practical solution to accounting problems, in Romania, has been that of accounting magazines, as well as of the former Body of Authorized Accountants and Accounting Experts that functioned between 1921 and 1950. After a period of monism (1950 – 1993) specific to centralized and over-centralized economies that use flow accounting, where the role of accounting synthesis documents was marginalized, the start of the accounting reform in Romania with the Accounting Law no. 82/1991, with several developmental stages and with the purpose of harmonizing accounting legislation with the European Directives and with the International Accounting Standards, a context in which the creation and writing of financial statements have been regulated through a series normative acts, restores the leadership of the annual statements over the system of current statements.

## CONCLUSIONS

Scientific thought concerning the different epistemological theories born over time in relation to the balance sheet presupposes an attempt to synthetically and appropriately characterize the meanings and signification of the notions and categories defined historically and structured according to the methodological reference on which they are based.

The trajectory of socio-economic dynamics of a few hundred years, many minds are inclined to put the field on a balance sheet of theoretical and revealing the pragmatic functions.

Literature today shows that there is not a closed process, because analysis of balance sheet remains focused for the recovery potential in the management of human activity.

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