

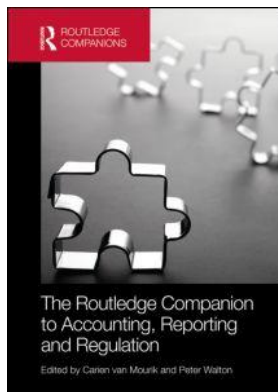
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Carien van Mourik, Peter Walton

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Salme Näsi, Chiara Saccon, Sonja Wüstemann, Peter Walton

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European Accounting Theory: Evolution and Evaluation

Salme Näsi, Chiara Saccon, Sonja Wüstemann and Peter Walton

1. Introduction

The origin of this chapter lies in the observation that international standard-setters never refer to any of the prominent European theorists of accounting, and that the theoretical basis of standard-setting primarily acknowledges (Anglophone) financial economics rather than anything else. This chapter therefore sets out to provide a brief introduction to the better-known theorists from mainland Europe. What emerges is that our predecessors identified fundamental issues in financial reporting that still remain unresolved, even if each generation perhaps sees them as problems of their own period.

In the twenty-first century, academic publishing requires researchers to cite authoritative literature when they write. This means that we can establish at least some kind of presumption of what their influences are. At a simplistic level, if Schmalenbach, for example, is cited we can presume that they have, on the face of it, considered his writings. The further back you explore authoritative literature, the less you are likely to find these citations, particularly in normative writing. As a consequence, although we should like to be able to assert that such and such an accounting thinker influenced future generations, there is rarely any way that can reasonably be done. The research literature would also tell you that (a) people can be influenced by ideas without being conscious of that connection, and (b) what people believe influences them may not have done so. Mostly, therefore, we cannot make connections of flows of ideas across Europe, nor show a massive current of distinctly European thought that can be contrasted with the (often American) Anglophone literature of financial economics such as agency theory, information economics, and market pricing which more obviously is cited in accounting textbooks today.

Within those confines, we should like to point out that we believe there is some tradition of exchanging accounting technology within mainland Europe, and also some appearance of a cleavage in exchanges between the Anglo-Saxon accounting tradition and the continental European stream of accounting. The literature of comparative international accounting, and in particular Nobes (1984), establishes that there are two 'families' of accounting and reporting: the Anglo-Saxon tradition (centred on the US and UK), and the continental or code law tradition (centred on France and Germany). There is some evidence of limited borrowing of company

law between these two streams, but they have largely evolved independently of each other, and the theorizing within these cultural traditions also remains largely separate, one reason for dealing with it in two separate chapters in this collection.

The usual analysis of Anglo-Saxon accounting is that it evolved in the nineteenth century as a by-product of the industrial revolution, and, as the UK was narrowly the first country to experience industrialization, this stream of accounting had its origins in the UK. The industrial revolution called for much larger investments than the previous small business structure was able to provide. This in turn led to a much wider use of share-issuing companies as a vehicle for multiple investors to share the high risks and a need for structured reporting to investors. Government intervention was also needed to help the functioning of the capital markets and protect investors. We should point out that, although the concept of income tax had been developed in the UK at the end of the eighteenth century, the accounting requirements developed in company law in the nineteenth century made no attempt to bring the separate streams of law together.

This kind of economic development and its legal accompaniment transferred to the US where it was further developed and also transferred across the then British empire (see for example Walton 1995). This stream of accounting requirements was shared within the Anglophone world, which had ignored earlier developments in European accounting, and remained largely separate from the European stream until the movement towards global harmonization which first manifested itself in the 1970s, at which time regional harmonization was also pursued in Europe. Curiously the development of accounting technology in the Anglophone world in the nineteenth century did not apparently generate any significant theoretical debate as to what accounting was supposed to address, while in Germany and Italy a body of theorizing was evident.

The separate continental European stream of regulation had its origins much earlier than the industrial revolution. The first attempt by the state to regulate accounting occurred in seventeenth-century France with the publication of the Savary Ordonnance of 1673 (Bocqueraz 2010). The analysis usually provided suggests that the French government was concerned at a spate of bankruptcies amongst businesses in Paris. A small business would fail, leaving other businesses owed a great deal of money, causing them to fail in turn. The government believed that this could be contained by requiring business to draw up an annual inventory of assets and liabilities, and in particular to keep detailed records of debtors and creditors. From this came the second current of accounting development where accounting was seen at a micro level as a means of controlling and analysing business activity and at a macro level as a means of regulating the economy, and when income tax became widespread in the early twentieth century, of measuring taxable income.

Schmalenbach (cited in Walton 1995) says that the Prussian government became aware of the need to introduce accounting requirements in the eighteenth century and borrowed the French approach. The latter was expanded in the broad legal reforms introduced in France with the codification of law and the creation in particular of the 1807 Commercial Code. Napoleon's military campaigns across Europe were accompanied by the installation of French code law in a number of countries, including Spain, Italy, Belgium and the Netherlands, thus expanding this approach to regulating accounting and developing a common system. As the English Channel was an obstacle that halted Napoleon to the west, it would have helped preserve UK isolation from this school of thought.

Mikol (1995) suggests that France dropped into its Commercial Code share-issuing companies in 1862 and some notion of audit, borrowed from the UK company statutes, and, while Germany also developed share-issuing companies, it created the small company vehicle (*Gesellschaft mit beschränkter Haftung* – GmbH) which does not have a counterpart in the Anglo-Saxon

tradition. The GmbH came into French legislation as a result of the transfer of Alsace-Lorraine from Germany to France in the early twentieth century.

Apart from such historical accidents, there is some evidence that continental European accountants did make some attempts to discuss what was happening in each other's countries (Forrester 1993). However, given the difficulties tracing the evolution of thought, the bulk of this chapter will look at accounting theory through a national framework, where action and reaction are sometimes clearly documented. It will start with developments in France, then move to Italian theorists, followed by a discussion of the German theorists, and then look at the work of Finnish Professor Martti Saario (see Table 4.1).

Table 4.1 Summary of the German theorists and Saario

	<i>Purpose of accounting</i>	<i>Recognition principles</i>	<i>Measurement principles</i>
Simon	- Primary objective: provide information about a firm's financial position Secondary objective: determination of income defined as increases in net assets	- Reliability restrictions for assets and liabilities: rights only qualify for recognition if costs were incurred Intangible assets need to be purchased from a third party Only legal obligations recognizable	- Core measurement attribute: individual value Current assets held for sale: individual sales price with market exit price as an upper limit Fixed assets held for use: purchase price reduced for depreciation
Schmalenbach	- Determine a periodic income number that allows management to control the business Profit as an indicator of a firm's operating efficiency	- Realization principle requires revenues (and the related expenses) to be recorded at the point of sale, even in the case of long-term construction contracts	- Strong emphasis on prudence principle in the later theory: assets are measured at historical cost and depreciated over their useful lives Depreciation charges shall rather be measured too high than too low
Schmidt	- Determine a firm's 'real' capital (reproduction value) in the balance sheet and 'real' profit in the income statement	- Full recognition of intangible values for the acquisition or development of which the firm has incurred costs	- Core measurement attribute: replacement cost gains and losses resulting from changes of replacement costs shall be directly put into equity
Moxter	- Prudently and reliably determine distributable profit Provide additional information in the appendix	- Assets and liabilities shall be reliably identifiable Profit shall be virtually certain substance-over-form-approach	- Assets: measured at acquisition or purchase price (historical cost) and depreciation over useful live impairments in case of a decline in value
Saario	- Calculate the annual income: monetary profit as the difference of revenues and expenses based on the matching principle	- Realization principle in recording and matching principle in profit calculation	- Historical cost: book-keeping understood as the description of the monetary process of the firm

One of the significant characteristics of the evolution of continental European thinking on accounting is that it has often focused on classification of accounts in the ledger, rather than on financial statements. This focus on competing ways of classifying transactions is notwithstanding a discussion both of the objectives of accounting and the objectives of the company and its role in society. From an Anglo-Saxon perspective it is easy to dismiss this theorizing as being ‘just about book-keeping’, a subject seen as having no intellectual content in the Anglo-Saxon literature, by contrast with the serious business of financial reporting. One could hypothesize that, because the continental European stream of thought has its origins well before the development of listed companies and capital markets as they emerged in the nineteenth century, the focus was not on reporting to the outside world, but rather on theorizing about what was the entity, which aspects of it should be highlighted in the accounting system (and as a consequence be a focus of management) and which relationships needed to be reflected.

The Anglo-Saxon stream of accounting by contrast has its origins in reporting to the capital markets, so it is not surprising that the literature focuses on reporting, even if there is also some literature on classification issues. UK company law is silent about accounting records, only requiring records to be adequate to enable true and fair financial statements to be prepared. However, the relationship between the ledger classification and the financial statements is of course direct.

Specific types of information in the financial statements cannot be provided unless the data in the ledger is held on the basis of that classification, so whether the theorist starts with the ledger or with the financial statements, the end result is the same – a classification and measurement approach. A minor irony of the twenty-first century is that Anglo-Saxon financial reporting vaunts the advantages of using eXtensible Business Reporting Language (XBRL), apparently without noting that XBRL requires the use of an accounts taxonomy, which is in effect a ledger classification system. Our analysis of European contributions to accounting thinking starts with the earliest contributions to ledger classification systems.

2. France and the development of classification

Forrester (1985) observes that ‘Knowledge of double-entry bookkeeping spread north from Italy, first to the Low Countries. Pacioli’s views were disseminated through varied authors, writing in Dutch or published in Antwerp or Amsterdam.’ He says that works were translated into French in the seventeenth century and French authors took up the subject. All this was given a boost when France issued the 1673 Ordonnance de Savary (mentioned above) which was the first European statutory requirement to maintain accounting records. The statute appears to have stimulated publication of a number of guides to book-keeping and business administration generally. Savary went on to publish his book *Le parfait négociant* in 1697.

Forrester (1985) says:

Another famous French text, *Le guide de negocians* was written by a Dutchman, Matthew De la Porte, and printed in Paris in 1685. It is largely a manual implementing the 1673 code. Its successor of 1704, *La Science des negocians*, contains a clear exposition and illustration of a systematic classification of accounts into three main classes, analyzed in progressive detail.

Boyns *et al.* (1997: 401) translate these as:

- chief accounts: capital, profit and loss, expenditure and commissions;
- effects in kind: liquid assets, goods and fixed assets; and
- correspondent accounts (accounts with suppliers and customers).

They say in their review of the historical French literature that prior to 1800 most texts were largely restricted to a discussion and explanation of the Italian system of double-entry book-keeping as applied to mercantile activities. They note that, as industrialization started to take place, texts started to appear that addressed ‘industrial accounting’:

An increasing number of texts began to consider the technical issue of costing within the double entry system.

[...]

The main additional activity that needed to be addressed by the industrial accounting literature concerned the movement of goods through the enterprise, from one stage of economic activity to another. A particular feature of the early texts was the attempt to formulate a suitable classification of accounts and, although it is clear that production and/or cost accounts were seen to be essentially subservient to the main accounts, there was little agreement as to the number of the latter (ibid.: 400, 401).

France was, of course, the first European country to have a government-organized chart of accounts, which in its most developed form (Plan Comptable Général 1957) provided a standard codification of the ledger, together with an integrated costing system and a link through the financial statement presentation (Scheid and Walton, 1992: 114–29).

3. Italian theorists and *economia aziendale*

The significant theoretical debate in Italian accounting that arose between the eighteenth and nineteenth century was the search for an explanatory framework for double-entry book-keeping. The technique of book-keeping started to be influenced by French elaborations of the subject, especially De La Porte (Zan, 1994: 273). His ‘personalization’ or ‘personification’ of accounts influenced Italian accounting theorists’ thinking about the nature of the different accounts in the double-entry book-keeping system. Degrange (father and son) developed the method called *cinquecentisti* and Vannier proposed in 1840 (ibid.: 276) the ‘theory of the fictitious personification of the accounts’. All these represent attempts to classify accounts in order to provide a more rigorous logic to the structure of the double-entry book-keeping system, while at the same time being based on particular notions of value and of the objectives of the business.

Starting with the Lombard School (1840–60) followed by the Tuscan School (1860–80) and culminating in the Venetian School (1880–1960) the idea started to spread that the nature, objectives and domain of the accounting discipline must be viewed in relation to the wider administrative process in which it is included. In other words, ‘there seems to be a strong interest in ‘self-reflective’ observations on theoretical and epistemological issues among Italian scholars and not just a focus on narrow technical ones’ (ibid.: 283). This approach led, in the first half of the twentieth century, into the establishment of *economia aziendale* (science of economic administration) as the most prominent discipline in Italy (see Table 4.2).

3.1 Francesco Villa – the Lombard school

In an accounting environment dominated by French personalization theories, Francesco Villa (1801–84), the founder of the Lombard school, elaborated his significant contribution in 1841 in his essay *La contabilità applicata alle amministrazioni pubbliche e private* (Accountancy applied to private and public administrative bodies) and in 1850 *Elementi di amministrazione e contabilità* (Elements of administration and accountancy).

Table 4.2 Summary of the Italian accounting schools of thought

	<i>Orientation</i>	<i>Recognition and measurement</i>
Villa (Lombard School)	Accounting as part of the wider administrative process	Mixed theory of accounts (personalist and materialist approach)
Marchi, Cerboni (Tuscan School)	Economic administration creates and is informed by accounting	Theory of all personal accounts (<i>logismografia</i>)
Besta (Venetian School)	Atomistic view of the firm (<i>azienda</i>). Economic control through accounting	Value-based theory, patrimonial orientation
Zappa (Venetian School)	Holistic conceptualization of the firm <i>Economia aziendale</i> as discipline	Wealth as an abstract fund of values. Income measurement

Villa views accounting as part of a wider administrative process. In doing this he envisages accounting in relation to the basic unit of economic activity entitled *azienda* (firm), as mainly reflecting the processes dealing with the administration of wealth and the recording of economic transactions. Thus, Villa notes that book-keeping represents the mechanical part of accounting and that accountants cannot properly fulfill their tasks without an appropriate knowledge of the interactions between the accounting and administration of the *azienda* (Villa, 1841, 1850). Because of his intuition, he is considered to be the first Italian scholar to deal with *economia aziendale* (Catturi, 1989: 120), which was then developed by Zappa in the twentieth century. Villa's contribution can certainly be seen as an innovative work; even if there are some ambiguities and contradictions (Giannessi, 1980: 25), his contribution to the definition of the accounting domain is genuine.

Technically, his work presents some interesting features. For example, he proposes the *teoria mista*, a mixed theory of accounts, partly based on personalist theory and to a degree on materialistic theory (a focus on structuring the ledger around objects). Furthermore, he provides some rules to address adjustments at the end of the financial year, although he does not lay any emphasis on the continuity of the firm over time. He also established the economic concept of *wealth* as an aggregated value. The latter idea was later adopted and developed by Fabio Besta who acknowledged Villa as his main influence.

3.2 Francesco Marchi and Giuseppe Cerboni – the Tuscan school

While the Lombard school shows traces of Austrian domination, (owing to the fact that, following the Congress of Vienna in 1814–15, the 'Lombard and Venetian regions fell under the administrative regime of the Austrian-Hungarian Empire'; Zan, 1994: 278), the Tuscan school has clearly been influenced by French tradition. Francesco Marchi (1822–71) was the first Italian scholar to propose a new and rational theorization of double-entry book-keeping aiming at developing and substituting the French *cinquecontisti* theory. Marchi elaborates the 'theory of all personal accounts', which is based on a real personification of accounts in contrast to the fictitious French personification. Zan explains this as follows:

The contribution of Francesco Marchi (1867) is strictly focused on accounting issues, and in particular represents an effort to refuse the 'five accounts' theory of Degrange by

replacing it with an alternative theory. Marchi argues that the basic rule for debiting and crediting is incomplete and obscure and points out that the claim that the ‘general accounts’ represent the merchant is a mere fiction, given that two of them refer to things, two refer to persons, and just one refers to the owner as such. Marchi’s counter-proposal is based on a ‘legal view’, given that ‘associated with the right to things there is always the duty to care for them’. The charge of this duty of care might in bigger firms be passed to nominated ‘consignees’ or in smaller ones be consigned to the owner himself or his steward. On a basis of what is clearly a ‘subject’-based view – as it emphasizes the relations between persons – a full ‘personal accounts theory’ emerges, wherein accounts are classified according to the persons who are the consignees for the object of the accounts (Zan, 1994: 280).

Marchi’s theory represented a basis for later developments and was subsequently expanded by Giuseppe Cerboni (1827–1917). He contributed significantly to an interdisciplinary approach in explaining the foundations of accounting based on the systematization of a *logismografico* thought, an approach coming from the synthesis of three aspects of accounting: economic, administrative and computational (ibid.: 281). Cerboni defines the relation between economic administration and accounting similarly to the one between will and reason; will is concerned with action, while reason informs it (Cerboni, 1889).

The method of presenting the administrative facts is called *logismografia* meaning a reasoned description of accounts. This new and complex accounting technique consists of two book-keeping systems – one patrimonial and the other financial – and it is mainly used by public administrative bodies. The patrimonial system calls for separate accounts for owners on the one hand, and agents and all other related parties in another account. The *logismografia* elaborated by the Tuscan school was recognized by some American accounting theorists and it influenced the attempt to develop an accounting discipline called ‘accountics’ (Viganò, 1998: 384).

Italian scholars belonging to the Lombard and Tuscan schools initiated significant debates about the accounting domain, while maintaining the technical classification of accounts, which was the result of foreign influences. In the late nineteenth and early twentieth centuries the Venetian school, represented by the works of Besta and Zappa, abandoned personalist theories and focused on the economic entity of the *azienda*.

3.3 The Venetian school

3.3.1 Fabio Besta (1845–1923)

In 1872, Fabio Besta was appointed to the first Italian Chair of Accounting at the Royal High School of Commerce in Ca’ Foscari, Venice, where he spent his entire academic life providing great contributions to the development of the accounting discipline. The contribution of Besta is fundamental to the Venetian school as it is coherent, complete, relevant and determinant to the evolution of subsequent accounting thought (Giannessi, 1980). The scientific work of Besta was carried out in the late nineteenth and the early twentieth centuries. By then interest in the *logismografia* of the Tuscan school had largely disappeared because of the difficulty of its practical use and other perceived shortcomings.

Besta was opposed to the legal approach of the Tuscan school and the theoretical viewpoint of *logismografia*. This is reflected by his central work *La Ragioneria* (Accountancy), which derives from lectures given in the 1880s at the Venice Royal High School and was first published as a book in 1910 and in a final version in 1922. His analysis focuses on the concept of *azienda*,

which is described as ‘the sum of phenomena, businesses and relationships concerning a given set of capital assets’ (Besta, 1922: 5) belonging to a person, a family or to any other kind of owner. Economic administration is defined as ‘the governance of phenomena, businesses, and relationships linked with the evolution of an *azienda*’s wealth’. (ibid.)

Economic administration is split into three elements:

- operations (*gestione*), i.e. the ‘economic labour’ dedicated to activities concerning the acquisition, transmission and use of wealth;
- management (*direzione*), which governs the economic labour; and
- economic control (*controllo*), which records and analyses the effects of the ‘economic labour’ in order to properly manage it (Zan, 1994: 286).

Due to the wide variation in the activities of *azienda*, the first two elements in Besta’s opinion differ among firms so these cannot be studied conveniently as a unified discipline.

However, economic control, done through accounting, works in a comparable way in all types of firms, so its activities can be generalized (Besta, 1922: 31). The focus on economic administration consequently becomes narrower and accounting is positioned at the centre of Besta’s theories. Accounting focuses on the dynamics of the entity’s wealth in order to avoid its loss (ibid.). Current wealth is the element best expressing the entity’s value and its control requires careful consideration of the value, composition, and changes in a firm’s assets and net worth. Wealth is seen as a variable which is commensurate with, and obtained as an aggregation of, the values assigned to the goods one owns, should receive from others or owes to others (ibid.: 79).

Besta stresses the economic concept of wealth, relying on the valuation of a firm’s resources, in opposition to the legal and personalist approach espoused by Cerboni and the Tuscan School. Besta’s value-based theory classifies objects in order to keep track of their variations and the only common aspect that makes them measurable and comparable is their value. The accounting system derived from this approach is called wealth- or value-centered, and described as a patrimonial¹ system (*sistema patrimoniale*).

The balance sheet is the most important statement as it represents the firm’s wealth (values of assets and liabilities and their composition), as the central phenomenon of the firm’s economy. Income measurement is subsidiary to the balance sheet measurement of assets and liabilities. Income consists of revenues and expenses deriving from the management of the individual components of a firm’s wealth. Capital is the relevant quantity to be measured, income is the accounting measurement of changes in capital over time.

The patrimonial approach adopts an atomistic-reductionist perspective: the *azienda* is a sum of many independent elements – atoms – where each element can be measured individually and the income statement is an aggregation of changes associated with specific individual assets. In this framework, margins which relate to specific areas of activity can be determined and be presented in the income statement. Consistent with the purpose of wealth measurement, the general valuation principle should be replacement cost (*costo di riproduzione*) to give the ‘true and real value’ of individual assets.

3.3.2 Gino Zappa (1879–1960)

Fabio Besta’s approach was disseminated and developed by numerous followers, but particularly Gino Zappa. Zappa studied under Besta at Ca’ Foscari at the beginning of the twentieth century. After then spending some years teaching at the Geneva School of Commerce, in 1921

Zappa was called to Venice to succeed his mentor. In the 1920s, Zappa published his own ideas, somewhat different from those of Besta, in several scientific works *Il reddito d'impresa* (Firm's income; Zappa, 1937 [1920]), *Tendenze nuove negli studi di ragioneria* (New trends in accounting studies; 1927) and *Le produzioni nell'economia delle imprese* (Production in the economy of the firm; Zappa, 1957).

Sensitive to the changing times, characterized by widespread industrialization, he moved towards an holistic conceptualization of the *azienda* and economic discipline. Zappa conceived the *azienda* as the economic unit of production or consumption, embedded in its specific context in space and time. Coordination and continuity through time were emphasized as important features of the *azienda* in its subsequent definitions. The *azienda*, the economic profile of any organized entity where economic activities take place, is seen as an economic co-ordination of process, where single operations and elements are considered as parts of a unitary whole or as a system of relationships, more than as isolated elements (Zappa, 1927). Furthermore, the *azienda* is an economic institution designed to persist, to continue its existence through time (Zappa, 1957).

The unitary and systematic concept of the *azienda* across space and time represents the most important innovation of Zappa's thought (Zan, 1994: 288) and the conceptual construction for an encompassing economic discipline is based on it. Zappa argued that *economia aziendale* is a new unitary discipline: a science studying the conditions of the existence and manifestations of a firm's life. Closely related areas of this unitary discipline are the study of *gestione* (operations), *organizzazione* (organization) and *rilevazione* (accounting).

The systemic view of *economia aziendale* sees all diverse activities within a firm as a whole and consequently all the disciplines studying them should be a whole. In the new conceptualization, Zappa reserved to accounting a mere instrumental role within the broader *economia aziendale* in contrast with the orientation of the nineteenth century's Italian scholars (Amodeo, 1983: 624) and some criticisms were expressed of this narrow view. Zappa's theoretical framework had important implications for the accounting discipline.

The idea of *azienda* as no longer a sum of the phenomena or facts administrated but as an economic coordination, which diverged from Besta's concept of firm's wealth represented by a set of goods/assets. Zappa regards wealth as an 'abstract fund of values' from which income flows and to which it is continuously added: wealth is generated by income and does not generate income. Besta's belief is rejected, income assumes the most prominent role, since it represents the result of the unitary economic coordination. In this context, the accounting system, which focuses on income determination, is labeled *sistema del reddito* (income-based accounting system) and the profit and loss account becomes the central statement.

Taking a holistic view of the firm, and seeing it as a process, income is seen as coming from the entire set of operations and not generated by specific assets or particular transactions. Because of this approach, a break-down of results or margins from different operations is not logically determinable within the income-centred system. The only format of profit and loss account consistent with this view is the horizontal statement (*a costi, ricavi e rimanenze*) where global expenses, revenues and adjustments for incomplete operations are put together in a single account.

The horizontal format of income statement therefore entered the Italian accounting tradition and from 1970s represented the usual format required from companies by the civil code. The progressive income statement, presenting intermediate results consistent with Besta's accounting system, is rejected by Zappa. As for the balance sheet, the items displayed, except for monetary items, are considered to be unexpired costs and unearned revenues. Their value is not

based on replacement cost as Besta required, but on their capacity to contribute to the firm's activity (Catturi, 1989: 157).

Given the conceptual view of the firm as an indivisible system that continues through time, generating income by a continuous flow of operations, a periodic measurement of income represents merely an accounting fiction, since the only relevant measurement of income, from a theoretical point of view, would be the total-life income. The periodic income determination, in annual as well as interim reporting, is needed, and so acceptable, for practical reasons only. Because of the economic continuity of the firm's operations and of income being continuously in the process of formation, any fictitious break aiming at determining periodic results has to be undertaken cautiously by trying to minimize the loss of meaning that such a fiction inevitably causes.

4. Herman Veit Simon: early static accounting theory

4.1 Simon's background

Herman Veit Simon (1856–1914), a German lawyer, was the first one to design a comprehensive system of accounting principles and rules in Germany, based on the existing legal framework. It is referred to as static accounting theory (though not by himself) because it aims at providing information about a firm's capital (Schmalenbach, 1962: 44), or, more precisely, its financial position ('*Vermögenslage*') (Moxter, 1993a: 294). The first edition of his book '*Die Bilanzen der Aktiengesellschaften und der Kommanditgesellschaften auf Aktien*' was published in 1886, the third and (unchanged) fourth editions were published in 1899 and 1910 respectively. His work is considered as the best description of the early static accounting theory in the German literature (Moxter, 1984: 1). It exercised wide influence on both accounting theory and practice in Germany during the twentieth century (Schneider, 1974: 290). Some of his theory's elements can be found in prominent US accounting monographs, such as by Sprouse and Moonitz (1962), and the IASB's currently preferred asset and liability view. In his discussion of measurement attributes, Simon already struggles with the conflict between relevance and reliability and thereby provides interesting insights for the present measurement debate in international financial reporting.

4.2 Purpose of accounting

In Germany, the theoretical discussion on objectives of financial reporting and consequential recognition and measurement principles was initiated by a verdict of the Federal Commercial Court ('*Reichsoberhandelsgericht*') in 1873. The Court stipulated that assets shall be measured at their current (exit) market price ('*allgemeiner Verkehrswert*') – an objective value that is free from subjective judgments and mere speculations (Moxter, 1977: 672; Simon, 1899: 290). Consistent with this measurement principle, the determination of a firm's capital accessible to creditors in case of liquidation was considered as the underlying objective of financial statements (Moxter, 1993a: paras 295–6).

Simon strongly disagreed with both the objective and the measurement attribute. According to Simon, the primary purpose of financial statements is to provide information about a firm's (individual) financial position ('*Gewährung einer Übersicht über die Vermögenslage*') under the premise of going concern (Simon, 1899: 2, 303–4). The determination of a firm's profit is regarded as a secondary objective (ibid.: 5). In the static accounting theory, profit is defined as the increase in net assets during an accounting period and thus represents a mere 'by-product' of the accounting process (Moxter, 1984: 5–6).

4.3 Recognition principles

4.3.1 Assets

Under the static accounting theory, assets generally represent expected positive contributions to a firm's net present value (ibid.: 7–8). In order to ensure the 'correctness' of financial statements and to prevent 'fictitious' accounts Simon introduces several reliability restrictions (Simon, 1899: 158). Physical objects and receivables are generally considered as assets (ibid.: 149–68). Rights, other than receivables, only represent assets if the firm has paid something for their acquisition. Accordingly, a filed patent meets the asset definition while a concession that has been received free of charge does not (ibid.: 168–9). Other intangible objects (non-rights) that are expected to yield future economic benefits only qualify for recognition if they have been purchased from a third party (ibid.: 169, 167).

4.3.2 Liabilities

Liabilities generally represent expected negative contributions to a firm's net present value under the static accounting theory (Moxter, 1984: 11). Again, Simon imposes strong reliability restrictions: only legal obligations are allowed for recognition as liabilities (Simon, 1899: 173 ff.; see for details Moxter, 1984: 11–12).

4.4 Measurement principles

Simon's core measurement attribute – an asset's 'individual value' – directly follows from the objective to provide information on a firm's (individual) financial position. Current assets held for sale shall thus be measured at the individual sales price, i.e. the price that the specific firm could achieve in a sales transaction (Simon, 1899: 360). However, Simon restricts the measurement judgment by determining the (objective) market price as an upper limit (ibid.: 361). The recognition of unrealized holding gains consistently fits into Simon's theory. Only for purposes of profit distribution shall those gains be put into a reserve (ibid.: 337).

In the case of fixed assets that are held for use the individual value corresponds to the purchase price reduced for depreciation in later accounting periods (ibid.: 408). Simon explicitly rejects value in use estimations – on the one hand, due to their arbitrariness, and, on the other hand, because the resulting gains and losses will never be realized and thus do not provide meaningful information (ibid.: 409).

5. Eugen Schmalenbach: dynamic accounting theory

5.1 Schmalenbach's background

Eugen Schmalenbach (1873–1955) was professor of business administration at the University of Cologne. His work is referred to as dynamic accounting theory because it aims at providing information on the movements within a firm during a certain period of time, especially the development of a firm's income (Schmalenbach, 1962: 44). After several journal publications between 1908 and 1919 Schmalenbach further developed and significantly revised his theory in a monograph '*Dynamische Bilanz*',² which was published in 13 editions. The last edition, which was published posthumously in 1962, is intended to give a comprehensive picture of Schmalenbach's theory by reintegrating parts from previous works (Schmalenbach, 1962, foreword by R. Bauer).

Schmalenbach's work did not only have a strong influence on German accounting theory and practice, his theory was also widely recognized on an international level. It was translated into many languages, such as English,³ Japanese, French, Spanish and Russian (Moxter, 1966: 30), and discussed in numerous international research publications (e.g. Forrester, 1993; Graves *et al.*, 1989 and Mattessich and Küpper, 2003). Schmalenbach's dynamic accounting theory can be regarded as a pioneer of US works in this field, such as Paton and Littleton (1940) and Bevis (1965), as well as the revenue and expense view that prevailed in US accounting practice until the 1970s (Storey, 2007).

5.2 Purpose of accounting

Schmalenbach developed his dynamic accounting theory in the early twentieth century as a reaction to the static accounting theory that dominated German accounting theory and practice at that time. He claims that the objective under the static accounting theory – to ascertain both the 'real' capital and the 'real' income – is not attainable and thus discards this dualistic approach as unscientific (Schmalenbach, 1962: 44–5). Moreover, Schmalenbach shows that the balance sheet is not capable of determining a firm's real capital because it necessarily leaves out values that are difficult to measure (*ibid.*: 45–9). As a consequence, Schmalenbach's dynamic accounting theory focuses on the income statement. It aims at determining a periodic income number that allows management to control the business (*ibid.*: 53–4). Profit is therefore designed as an indicator of a firm's operating efficiency; it reveals the 'up and down' of the firm's profitability (Schmalenbach, 1919: 9). Since not the absolute amount of profit, but rather its change in comparison to previous periods is important for this purpose, one of the main principles of Schmalenbach's theory is to ensure comparability of periodic income across different accounting periods (Schmalenbach, 1962: 54).

Profit is defined as the excess of the accomplishment ('*Leistung*') of an economic business (measured in terms of revenues) over its expenses (Schmalenbach, 1919: 3). According to the 'overriding' accrual principle an entity's receipts and costs shall be recognized as revenues and expenses in the periods in which they were caused by the respective business activities and other events. In the dynamic accounting theory the balance sheet has the mere (auxiliary) function to store profit and loss items in suspense, waiting to become revenues and expenses in the future (*ibid.*: 14–16).

5.3 Recognition principles

5.3.1 Revenues

Revenues from the sale of goods are realized at the point of sale, either when cash is received or the invoice sent to the customer (Schmalenbach, 1962: 76). In the case of long-term construction contracts, Schmalenbach's quest for comparability of periodic income across periods principally requires revenue to be recognized as construction (the business activity) progresses. However, for reasons of prudence, Schmalenbach sticks to the realization principle and argues for the recognition of revenue at contract completion. He explicitly accepts the distortion of the comparability of the profit figure in this case (*ibid.*: 77).

5.3.2 Expenses

Costs are generally recorded as expenses in the periods in which the related benefits (revenues) are yielded (realization principle). Accordingly, when an entity has acquired a machine or

produced an inventory it has accomplished an ‘advance performance’ (*‘schwebende Vorleistung’*). The incurred costs are initially stored in the balance sheet as assets and then matched with the related revenues when the machine is used or the inventory sold. When the revenues have been realized before the related costs are incurred, the expenses are anticipated at the point of sale in the form of a provision for outstanding performances (*‘schwebene Nachleistungen’*), e.g. in the case of warranties (ibid.: 66–71).

Costs resulting from particular hazards (*‘spezielle Wagnisse’*), such as losses and damages caused by natural catastrophes or clients’ defaults, shall be anticipated in the form of a provision and thus allocated over several accounting periods in order to ensure comparability of periodic income across accounting periods (ibid.: 171–173).

5.4 Measurement principles

In the course of the revisions of his theory Schmalenbach increasingly put emphasis on the prudence principle. With regard to measurement, he argues that an overestimation of income is considerably more dangerous than an underestimation (ibid.: 99). According to the realization principle that directly follows the principle of prudence, assets are measured at historical cost and depreciated over their useful lives. Schmalenbach discusses the measurement of fixed assets at replacement costs and the measurement of assets held for speculation purposes at (exit) market prices, but rejects both, mainly due to reasons of uncertainty and lacking reliability (ibid.: 186–196). The emphasis on the prudence principle also shows as to depreciation: depreciation charges should rather be measured too high than too low in order to avoid asset impairments that would distort the comparability of periodic income (ibid.: 141–142). Furthermore, Schmalenbach (1919: 88) disapproved of the lower of cost or market principle in the beginning, but later included it in his theory, again for reasons of prudence (see also Moxter, 1982: 194–5).

6. Fritz Schmidt: organic accounting theory

6.1 Schmidt’s background

Fritz Schmidt (1881–1950) was professor of business administration at the Johann Wolfgang Goethe University Frankfurt am Main. His work is referred to as organic accounting theory because it regards the ‘integral role of the individual firm as part of the national economy’ (Clarke and Dean, 1986: 65), or, in Schmidt’s words, the firm as ‘a cell within the organism of the overall economy’ (Schmidt, 1929: 47). Schmidt published his theory as a monograph in German in 1921 (*‘Die organische Bilanz im Rahmen der Wirtschaft’*), which became *‘Die organische Tageswertbilanz’* in the third edition in 1929. Between 1929 and 1931, parts of his theory appeared as articles in US journals (Schmidt, 1929, 1930a, 1931).

Though Schmidt’s organic accounting theory was not adopted by the German accounting practice it contributed to the advancement of business administration as a distinct academic discipline in Germany. Moreover, ‘by those able to pass through the language barrier’, Schmidt’s work has been described as ‘pioneering’ with regard to inflationary (replacement cost) accounting; it was later built on and further developed in the US by Sweeney (1976); Edwards and Bell (1962); Clarke and Dean (1986) and Mattessich (1984). Beyond this, Schmidt was one of the first to propose excluding unrealized gains and losses from the income statement by putting them directly into equity – a practice that was later adopted by major accounting regimes, such as US GAAP and IFRS.

6.2 Purpose of accounting

The organic accounting theory follows a dualistic approach by aiming at ascertaining the ‘real’ capital in the balance sheet and ‘real’ profit in the income statement (Schmidt, 1929: 81–84). According to Schmidt (1929: 74; 1930b: 239) the sum of all assets less liabilities represents a firm’s reproduction value, i.e. the amount of capital that would have to be expended in order to rebuild the firm at the balance sheet date. The profit figure measured as ‘what is produced above the maintenance of business assets’ shall ‘enable the enterprise to function properly as an economic unit in all economic situations’; it is supposed to ‘give ... a value-picture in the profit and loss statement corresponding to the current economic situation’ (Schmidt, 1930b: 235).

6.3 Recognition principles

Schmidt does not formulate definition or recognition criteria for assets and liabilities. Explicitly, he only addresses the recognition of intangible values. In order to provide a roughly complete picture of a firm’s financial position Schmidt argues for a full recognition of all intangible values for the acquisition or development of which the firm has expensed something (Schmidt, 1929: 118). The given examples – patents, advertising, customer base, secret methods and start-up expenses – evidence that Schmidt does not introduce any (further) reliability restrictions.

6.4 Measurement principles

Schmidt rejects the current exit price because its adoption as a measurement attribute would lead to the recognition of revenues before they have been verified in a sales act and thus infringe the realization principle. He also refuses the purchase or acquisition price since it has – after initial recognition – only historical importance. The measurement attribute that consistently fits into the organic accounting theory is replacement cost (*‘Tagesbeschaffungswert’*), i.e. ‘the market price for which one can obtain the economic good in question of the day of real or assumed replacement’ (Schmidt, 1929: 71; 1930b: 239). Since Schmidt sticks to the realization principle (holding) gains and losses that result from changes of the replacement costs before the sales act takes place shall bypass the income statement and be directly put into equity (*‘Wertänderungen am ruhenden Vermögen’*) (Schmidt, 1929: 305 ff.; 1931).

7. Adolf Moxter: neo-static accounting theory

7.1 Moxter’s background

Adolf Moxter (1929–) was professor of business administration at the Johann Wolfgang Goethe University, Frankfurt am Main in 1965–97. His work is referred to as ‘neo-static accounting theory’ because:

- it aims at ascertaining the ‘real’ capital and the ‘real’ income (dualistic approach); and
- it is built within the existing legal framework (Moxter, 1977: 675–6).

Since the 1960s, Moxter has continuously shaped and refined his theory by means of journal articles and the publication of monographs, most importantly *‘Bilanzlehre, Band I’* (Moxter, 1984 [1974]), *‘Betriebswirtschaftliche Gewinnermittlung’* (1982), *‘Bilanzrechtsprechung’* (Moxter, 2007 [1982]⁴) and *‘Grundsätze ordnungsgemäßer Rechnungslegung’* (Moxter, 2003).

Moxter's theory had a strong impact on German accounting theory and practice (Hommel *et al.*, 2004). His work contributed to the change from the dynamic to the static accounting theory ('*statische Wende*') in the 1970s (Moxter, 1993b) and, even today, it 'dictates' the Federal Court of Justice's interpretation of the statutory accounting principles in the German Commercial Code (Schmidt, 1996). Another of Moxter's contributions to accounting theory lies in revealing the limits of financial statements, which is also interesting and relevant for the present discussion relating to international financial reporting (Moxter, 2000).

7.2 Purpose of accounting

In his early works Moxter elaborately demonstrates that the purposes of the previous accounting theories are not attainable by means of financial statements. With regard to Schmalenbach's dynamic accounting theory, he points out that periodic income cannot properly indicate a firm's operating efficiency ('*Vergleich barkeitsmythos*' – 'comparability myth') (Moxter, 2000: 2144–5). That is because of the uncertainty of future events and the incapability of financial statements to adequately include those (Moxter, 1966: 44–5). With regard to the early static and organic accounting theory, he demonstrates that a firm's 'real' capital is not ascertainable in financial statements since the balance sheet is incapable of capturing certain assets and liabilities, such as synergy effects and internal goodwill (Moxter, 1984: 25, 72–5).

Moxter argues that information about a firm's 'real' capital and income (the future net cash flows expected to flow to the firm) need to be multivalent, e.g. in the form of a finance plan (Moxter, 1966: 45). He claims that one of the few purposes that (monovalent) financial statements can – and, according to the German law, should – fulfil is the determination of distributable profit (Moxter, 1966, 1984). If the prudently and reliably determined accounting figures provide 'distorted' information, additional 'healing' information shall be given in the appendix (Moxter, 1995). Especially in his latest works, Moxter addresses the legally stipulated information requirements and makes suggestions about classifications and explanations of financial statement elements (Moxter, 2003: 223–300).

7.3 Recognition principles

Moxter adopts the superordinate principles stipulated by the law – the prudence principle, the realization principle, the imparity principle and the reliability requirements. As an advocate of the static accounting theory Moxter only allows reliably identifiable resources and obligations to be recognized as assets and liabilities. In contrast to Simon, legal concepts only represent a starting point of analysis. Moxter strongly emphasizes that the economic facts and circumstances also need to be considered in the interpretation and application of accounting principles ('*wirtschaftliche Betrachtungsweise*' – 'substance over form approach') (Moxter, 1989). Another contrast to Simon is that Moxter requires revenues and profit to be virtually certain to be recorded. The recognition of holding gains is incompatible with the realization principle and thus prohibited (Moxter, 2004).

7.4 Measurement principles

According to the prudence principle and the realization principle assets are to be measured at the acquisition or purchase price (historical cost) at initial recognition and depreciated over their useful lives. The imparity principle requires impairments in case of a decline in value.

8. Martti Saario: the Finnish expenditure–revenue theory

8.1 Saario's background

Professor Martti Saario (1906–88) took a law degree at the University of Helsinki, and a bachelor's degree, master's degree, and licentiate degree in business administration at the School of Economics in Helsinki in 1932. He started his career as a lecturer in book-keeping at the Viipuri (Vyborg) College of Commerce, where he served about ten years from 1929 until 1939. He wrote his first articles on the topic of business taxation, based on his Master's thesis. These were published in the Finnish business magazine *'Liiketaito'* under the title *'Verotuskysymys'* ("Taxation issue") (See *Liiketaito* 15, 1929; 16, 1930). (For Finnish articles on Martti Saario's biography, work and publications, see Honko, 1966; Pihlanto and Lukka, 1993; Pajunen, 2011),

During the Second World War the Finnish city of Viipuri (Vyborg) was ceded to the Soviet Union. In 1939 Saario applied and won a stipend for his doctoral studies from the School of Economics in Helsinki. During the war Saario acted as a senior controller of the war economy (*sotatalouden tarkastuksen ylitsevalvoja*) in the period 1942–4 and wrote his doctoral thesis on the depreciation of fixed assets. Right after the end of the war Saario presented his dissertation entitled 'The realization principle and depreciation of fixed assets in profit calculation' (*Realisointiperiaate ja käyttöomaisuuden poistot tuloslaskennassa*) for public examination and he was awarded his PhD degree in 1945, as only the second doctor ever from the School of Economics in Helsinki.

Saario taught book-keeping at the School of Economics from 1943 and was appointed to a professorship in business accounting in 1948. He then served the School of Economics as a tenured professor of accounting with specialization in financial accounting, taxation and finance between 1948 and 1971. In addition he served the Turku School of Economics as an acting professor from 1964–73.

8.2 Saario's theory of book-keeping

8.2.1 Background

Martti Saario developed his expenditure–revenue theory of book-keeping as part of his doctoral dissertation. In the same year Finnish book-keeping legislation was reformed (Book-keeping Law 6.7.1945 and Statute 9.8.1945). The war had greatly increased the need for and extent of state control over the business sector. In order to compare the capacity of firms to pay income taxes, companies had now for the first time in Finland to follow, when preparing their financial statements, the form and content of a model set out in the new accounting legislation. The authorities needed, and the firms themselves also wished, to present uniform and comparable information for the purposes of governmental price control and taxation.

The new 1945 legislation standardized the terminology, the form and content of the income statement and the balance sheet, both presented in T-account (horizontal) form, with extraordinary items presented separately from the ordinary revenues and costs. The primary purpose of accounting was to calculate the annual profit of the firm, but assets valuation was the key factor in the profit calculation process. A significant feature of the new legislation was the prudence principle and the lower of cost or market rule in the valuation of the assets, e.g. inventories.

In this respect the new legislation was based on static balance sheet thinking. The legislation allowed a firm to smooth its annual result by using the fixed or normal stock method for inventories (introduced by the dynamic theorist Eugen Schmalenbach: see [Section 5](#) above), which

aimed at preserving a company's real capital and at eliminating cyclical fluctuations in profit calculations. Depreciation of fixed assets was to be made mainly according to a predetermined plan.

Martti Saario immediately criticized the 1945 legislation. He was convinced that depreciation according to plan was a wrong solution and wrote:

The last and regrettable mistake is made in the new legislation, whereby depreciation is to be made in equally large amounts every year according to a plan prepared beforehand without any consideration of the annual result (Saario, 1945: 278–9),

He concluded that 'the appearance of such an unhappy and erroneous regulation in the law can be understood as the fruit of a lack of expertise' (ibid.).

Saario wrote later in many of his magazine articles about 'the constricted and out-of-date balance equation' or about 'the static balance concept handed down from our fathers' and offered in its place an 'easier and more open' dynamic accounting theory. As a professor of accounting he taught book-keeping using his expenditure–revenue theory and his own way of thinking.

8.2.2 The objectives of accounting

Saario's theory is called and translated as book-keeping theory because it was based on recording three kinds of business transactions – expenditures, revenues and money transactions – following constantly the realization principle. In closing the accounts at the end of the financial year two bipartite divisions were to be made:

- allocation of revenues to absorbing expenses and releasing profit; and
- allocation of expenditures between current expenses and balance sheet *aktiva*.

The aim of the first division was to match a part of expenditures as expenses against corresponding revenues. In the second division the rest of the expenditures were transferred through the balance sheet to later financial years, to be matched against later financial years' revenues. The main aim was to follow the matching principle in the annual income measurement.

In Saario's thinking money (extended cash, including money receivables and money payables) was important. Saario understood a firm as a means for its owner(s) of earning money.⁵ To earn money was the factual purpose of an entrepreneur or a businessman. This way of thinking emphasized the entrepreneur's private economic benefits at the expense of more general national economic benefits.

In this Schmalenbach and Saario represented different thinking (see Pihlanto and Lukka, 1993: 256). The purpose of the profit calculation in Saario's theory was to find out how much profit (purchasing power, money) the owner(s) of the company had earned (Saario, 1945: s. 23 and Pihlanto and Lukka, 1993: 256). To Saario 'book-keeping was nothing more than money counting' (Saario, 1945: 53).⁶

Profit was calculated as the difference between the money/purchasing power obtained in sales (revenues) and lost in purchase (expenditures). The total (lifetime) profit of the firm could be calculated objectively in two congruent ways:

- as a difference of the total (lifetime) revenues and total (lifetime) expenditures; and
- by counting the money in cash at the end of the total period of the firm when all the debts and other payables had been paid.

The period (annual) profit calculation was arbitrary but recognition and income measurement problems were resolvable following the realization and matching principles.

From revenues realized during the period were subtracted the expenditures needed to create the revenues (matching). The rest of the expenditures were moved and capitalized on the balance sheet, which in Saario's thinking was a pure money balance and transfer account. *Aktiva* (the debit side amounts) of the balance sheet were interpreted to be expenditures (money or purchasing power spent) from which the revenues had not yet been received. *Passiva* (the credit side amounts) are in money terms, equity and debt, sources of finance. As to the measurement principles Saario's theory was based on historical cost, money spent and received in business transactions.

8.3 Saario's influence

A comprehensive presentation of the expenditure–revenue theory was published by Saario as the form of a textbook in 1959. This textbook was widely used in business school education in Finland, also in the newer business schools established in the middle of the 1970s.

Saario was very influential as a professor and thinker in the field of financial accounting in Finland; the expenditure–revenue theory was not the only innovation he developed. The other theory well known in Finland was the cost priority theory (Saario 1959), where income is used to first cover the running costs (wages, salaries, materials, energy, etc.), then depreciation of fixed assets and finally profit, the owners' portion. Saario could, in his position of professor at both the Finnish-speaking business schools existing at that time, spread and inculcate his theoretical ideas in business students for several decades (from the middle of the 1940s to the beginning of the 1970s). He also influenced practitioners and decision-makers with his numerous public presentations and articles. Most of the articles were written in Finnish and published in professional journals. Some were written in Swedish and a few in German. Obviously this may be one reason why Saario did not become well-known outside Finland in his lifetime.

Accounting legislation was reformed in Finland at the beginning of the 1970s. This legislation (the Accounting Act and Statute 1973) adopted both the expenditure–revenue and the cost priority order theories in book-keeping, profit calculation and the presentation of the financial statements. The expenditure–revenue theory was also adopted as the basis of the reform of company taxation in 1968. Prudence was also an essential feature of the annual income measurement both in accounting and taxation. Provisions for future costs and losses (for example bad debts, warranties and inventories) were deductible in income taxation on condition that they were made in accounting too.

The next accounting legislation reform took place at the beginning of the 1990s as a part of the preparation for Finland's membership of the European Union. The expenditure–revenue theory was still retained as the basis of accounting, but certain individual regulations undermined the theoretical foundations of Finnish book-keeping. One of these was the introduction of depreciation according to a preset plan and abolition of most provisions. In most recent accounting legislation reforms in Finland, international financial reporting standards have had a strong influence and Saario's theory can only be used as an easy way to teach double-entry book-keeping, if indeed it can be used at all. But Saario's theory influenced Finnish financial accounting and tax legislation for almost half a century.

9. Conclusions

A study of continental European accounting theorists seems to make clear that many of what are current issues in accounting doctrine are not new and indeed have been argued over for nearly two centuries. We can see the perpetual argument about whether accounting should be

measuring assets and liabilities or business transactions, and the discussion about whether the business model should influence the way in which accounting should be done. The history of accounting suggests that there is no definitive answer to these questions, and what happens in practice is likely to be due to a combination of other influences. For example, Richard (2004) points to the rise of corporate income tax, and shareholders' interest in dividends as the capital markets have evolved, as causing attention to switch from the balance sheet to the profit or loss account in the twentieth century.

A significant aspect of continental European thinking about accounting is that it has often been expressed in terms of the classification and measurement of items in the ledger as opposed to the financial statements. The ledger classification system has a direct consequence for what is in the financial statements, but the arguments about the objectives of financial reporting, the nature of the firm's relationships and the comparative importance of different aspects of the firm are expressed as discussions of the ledger system, not the financial statements. The literature does show a certain exchange between European countries on classification. In more recent times we can point to the French *Plan comptable général* as having been largely imported from Germany, where the development of charts is generally credited to Schmalenbach. Ledger systems have remained an important element of European accounting but are absent from Anglo-Saxon accounting. In particular, countries such as Germany, Switzerland and Italy have standard ledger classification systems that are widely used by companies, while France, Belgium, Spain and Greece have statutory charts of accounts.

What is disappointing from a European accounting perspective is that this relevant theorizing about accounting and reporting has disappeared almost without trace, except in the countries of origin, and is not referred to in current policy debates by international standard-setters. Not only do the economics of information and markets seem to have taken over from business economics, but people seem quite unaware that what are treated as current issues, such as a transaction approach or a value approach, balance sheet versus income statement, current value or historical cost, are issues that have been debated for centuries. They are more doctrinal issues, pursued with almost religious fervour by some participants, as opposed to being 'new' technical problems that are susceptible of resolution.

Notes

- 1 While the term 'patrimony' is not generally used in accounting in the Anglophone world, in Italy and France it sometimes refers to equity. The notion of a patrimonial system is assimilable to a proprietary view in the Anglophone literature.
- 2 The first three editions were titled '*Grundlagen der dynamischen Bilanzlehre*'.
- 3 Schmalenbach (1959).
- 4 The first edition from 1982 was titled '*Bilanzierung nach der Rechtsprechung des Bundesfinanzhofs*'.
- 5 Besides owners, the other important stakeholder of the firm was the tax authorities who were – and still are – central partners in profit sharing. Since the first Finnish accounting legislation (the Book-keeping Obligation Act in 1925 and the Financial Statements Publication Act 1928) linkage between financial accounts and company income taxation in Finland has been strong.
- 6 At least partly as a consequence of Saario's book-keeping thinking, the Capital Circulation Model with the real process (or flow) of production factors and products, and a monetary process as the mirror image of the real process has been since the 1960s a common way to describe and define a business firm in Finland (see e.g. Näsi and Näsi 1997, or Näsi and Mäkelä, 2010). Purchasing power moves into the firm at the moment of selling (and billing) and equally out of the firm at the moment of purchasing (and invoicing). Using this model book-keeping has often been defined as a description of the monetary process.

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