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HISTORY OF ACCOUNTING AND ACCOUNTANCY PROFESSION IN GREAT BRITAIN

Dubravka Paris, MA,

RRiF College of Financial Management, Zagreb, Croatia

dubravka@rrif.hr

ABSTRACT

Accounting has always been a part of our history, but it became prominent when monetary systems were introduced. The article presents the important events in the English history from the Middle Ages till today and includes the most important persons who lived in these periods. Due to the fact that the primary goal of the article is to present the history of accounting and accountancy profession, the review starts with the period of the 14th century when accountants were mentioned for the first time. It presents the development of accounting and accountancy professions and their importance in all the periods of human history.

Key words: accounting, accountancy profession, double-entry bookkeeping, history of Great Britain, associations of accountants, ICAEW.

1. INTRODUCTION

The history of accounting and accountancy profession is thousands of years old. The early development of accounting dates back to the ancient Mesopotamia and is closely related to developments in writing, counting and money and early auditing systems by Egyptians and Babylonians.

When medieval England moved towards a monetary economy in the 13th century, merchants depended on bookkeeping to oversee a great number of transactions financed by bank loans. The important breakthrough took place

through the introduction of double-entry bookkeeping system in the 15th century.

The expansion of commerce and business expanded the role of the accountant. The knowledge of accounting methods was often picked up through experience at work, with basic double-entry bookkeeping being taught at school. There were few professional accountants before the nineteenth century, and their business was at first largely based on dealing with the affairs of bankrupts. The emergence of a corporate sector created a demand for skilled auditors and investigators. The modern profession of the chartered accountant originated in Scotland in the nineteenth century. During this time, accountants often belonged to the same associations as solicitors. The accountancy profession is constantly improving and has become one of the most appreciated professions.

2. BEGINNINGS OF ACCOUNTANCY PROFESSION

The period of the 14th and 15th centuries was marked by the beginning of the Hundred Year's War and the epidemic of bubonic plague, which killed one third of England. Among five kings who ruled England in this period, the most famous and historically important ruler was Henry VIII (1491-1547).

Around the year of 1300, accountants are mentioned in historical records for the first time in the Statute of Westminster indicating they are considered important.

Italy is important in this period due to the fact that in 1327 early books from the commune of Genoa display an early form of bookkeeping. The Italian trading period sees sophisticated accounting systems developed within banking houses. Double-entry bookkeeping is discovered. In 1494 Luca Pacioli describes double-entry bookkeeping in his work *Summa di Arithmetica*, printed in Venice.

3. RENAISSANCE

It was under Henry VIII that England started exploring the globe and trading outside Europe, which was greatly developed to colonial proportions under his daughters Mary I and especially Elizabeth I.

The great Virgin Queen Elizabeth I played an important role in the first golden age of England. It was an age of great navigators like Sir Francis Drake and Sir Walter Raleigh, an age of enlightenment with the philosopher of Francis Bacon and the playwrights such as Christopher Marlowe and William Shakespeare.

In 1543 an English work by Hugh Oldcastle with the title *A Profitable Treatise* dealing with Debitor and Creditor was printed in London. After three years the English translation of Jan Ympyn Christoffels' work entitled *A Notable and very excellent woorke, expressyng and declaryng the maner and forme how to kepe a boke of accomptes or reconynges* was printed in Antwerp. In 1553 the third book in English on double-entry bookkeeping entitled *The Maner and fourme how to kepe a perfecte reconyng, after the order of...debitour and creditour* by James Peele is printed in London by the King's Printer, Richard Grafton. Grafton is credited by historians for introducing double-entry book-keeping to England.

4. RESTORATION (17TH CENTURY)

The 17th century England is characterized by religious troubles and the Civil War. The King James' successor Charles I was eager to unify Britain and Ireland, which eventually culminated in the English Civil War (1642-1658). Charles was beheaded and the puritan leader of the Parliamentarians Oliver Cromwell ruled the country until his death in 1658.

These events were followed by the period of Restoration under the reign of Charles II, who was the patron of the arts and sciences

Despite 14 illegitimate children, he was succeeded by his Catholic and unpopular brother James, whose religious inclinations and despotism led to his quick removal from power in the Glorious Revolution of 1688.

His Protestant daughter Mary married to his equally Protestant nephew William of Orange. During this period the Parliament ratified that all kings and queens would have to be Protestant from then on.

In view of accounting the year of 1635 saw another English work printed: *The Merchants' Mirror*, or directions for the perfect ordering and keeping of accounts, framed by the way of Debitour and Creditour after the Italian manner, by Richard Dafforne. Robert Colinson printed in 1683 the first Scottish book on accountancy entitled *Idea Rationaria*, or the perfect accomptant, necessary for all merchants.

5. GEORGIAN ERA (18TH CENTURY)

The period between 1660 to 1727 was characterized by the reign of George I. When he arrived in England he did not speak a word of English. The king's inability to communicate well with his government and subjects led him to appoint a Prime Minister. This marked a turning point in the British politics, as future monarchs remained more passive figures, letting the Prime Minister reign the country.

His son George II was a powerful ruler. The British Empire expanded considerably during his reign.

Among some notable changes, important is the replacement of the Julian Calendar by the Gregorian Calendar in 1752.

George III had one of the most troubled reigns in the British history. He came to the throne during the Seven Years' War (1756-1763), after which the UK acquired New France (Quebec), Florida and most of French India. In 1776, the American War of Independence started after the British government imposed a series of taxes on the colonies. Seven years later the French Revolution broke out.

With the development of investment in stocks, import and export activities were reaching the peak. Accordingly, the accounting profession had to evolve and adapt to maintain the movement of assets and profits within various industries.

In 1780 Josiah Wade founded "Tribe Clarke and Company" – the accountancy firm in Bristol. This company is the oldest firm to trace its continuous existence.

6. VICTORIAN AGE (19TH CENTURY)

During the early years of the 19th century Britain had to face the ambitions of Napoleon to conquer the whole of Europe. Two famous victories – Admiral's Nelson's naval victory at Trafalgar and Wellington's victory at Waterloo reinforced the international position of the United Kingdom.

Another notable fact of this period is the start of the Industrial Revolution with James Watt's invention of steam engine and the introduction of mechanisation of the manufacturing industry. Great industrial cities emerged as the new economic centres of the country.

In 1837 queen Victoria came to the throne. Britain asserted its hegemony on virtually every part of the globe. However, this resulted in numerous wars (Opium Wars, Boer Wars, the Crimean War). The latter years of her reign were characterized by the legalisation of trade unions, introduction of universal education and universal suffrage.

More experienced accountants needed to pass on their beliefs as to what constituted sound accounting practice to newcomers, and this led to the writing of textbooks and the publication of dedicated periodicals. The most important of these was *The Accountant*, which was founded in 1876, and contained many articles by accountants debating issues of financial reporting and accounting measurement.

Important books on accounting principles from the late nineteenth and early twentieth centuries include Francis Pixley's *Auditors: Their Duties and Responsibilities* (1881), Ewing Matheson's *The Depreciation of Factories* (1884), Emile Garcke and John Manger Fells's *Factory Accounts* (1887) and Lawrence Dicksee's *Auditing: A Practical Manual for Auditors* (1892) and *Advanced Accounting* (1903).

In 1831 A Bankruptcy Act was passed mentioning accountants alongside merchants and bankers as properly skilled to conduct audits. It is the first public recognition of accountants. In 1842 the Relief of Insolvent Debtors Act creates a new source of labour for accountants as it requires debtors owing less than £300 to attach a statement of debts when petitioning the Bankruptcy Court. In the period between 1853 a number of institutes of accountants were established in Scotland.

The Companies Act, passed in 1862, established the role of Official Liquidator, a person responsible for proceedings in the liquidation of public companies.

In the period from 1870 to 1877, bodies of accountants form in London, Liverpool, Manchester and Sheffield. The ICAEW starts its early life as a voluntary association called the Institute of Accountants in London. At first it does not admit practitioners from the provinces. This was not done until 1872. The idea to establish a professional association of accountants by means of the Royal Charter was initiated by William Quilter, who formed a voluntary Association called the Institute of Accountants in London in 1870. They signed a draft copy of the rules and regulations for the new Institute of Accountants, which was formed in the same year.

In 1871 The Council of the Institute of Accountants in London appoints a committee of examiners for new entrants. Candidates are examined viva voce (by oral interview).

In 1872 a special meeting of the Council of the Institute of Accountants in London was held to discuss widening the scope of the Institute to include accountants from the provinces. Membership is accordingly widened to accountants throughout the UK. The name is changed from Institute of Accountants in London to Institute of Accountants.

In 1877 the Institute of Accountants begins to prepare an index of useful cases affecting the profession. Relevant reference, law books and reports are purchased and copies of the accounts of railway, banking, and other public companies are requested for the Institute's Library. A clerk's register is established, including the examination system for the admission of new associate members.

In 1878 the Council of the Institute of Accountants resolved to improve its status by incorporation through an Act of Parliament. In the following year the Companies Act was passed requiring all banks to have properly audited accounts.

In 1880 the Royal Charter Order in Council was signed by Queen Victoria creating the new professional body called The Institute of Chartered Accountants in England & Wales (ICAEW)..

The following years comprised the early organisation of ICAEW, the setting of standards for professional conduct, the construction of Chartered Accountants' Hall and the first application for ICAEW membership made by a woman.

In 1883 a new Bankruptcy Act was passed establishing the position of Official Receiver. This removed insolvency from accountants. Thereafter, all monies held by trustees in bankruptcy had to be turned over to the Board of Trade's Bankruptcy Estates Account. The ICAEW Council was criticised for not protesting against it.

In 1888 The ICAEW refused admission to the first application for membership made by a woman, Mary Harris Smith.

In 1893 the Chartered Accountants' Hall was opened. In the same year the Society of Accountants and Auditors proposed strengthening the profession. Its recommendations became the Public Accountants Bill No. 1 calling for their members and those of the ICAEW alone to constitute the profession and bar all others from practising. A Public Accountants Bill No. 2 was drafted by the ICAEW calling for the registration their members to prevent all others from practising as public accountants. However, both failed.

7. FIRST WORLD WAR

Victoria's numerous children married in about all European families, which owned her the title of "grandmother of Europe". When Franz Ferdinand of Austria was assassinated in Sarajevo and Austria declared war on Serbia, it was in turn allied to France, Russia and the UK. The First World War left nearly 1 million Britons dead and financially ruined the country. The nation was disillusioned with the government and monarchy.

The World War One brought an increase in accountancy work and accountants gained expertise in managing companies and banks, particularly those of enemy states. Accountants assisted in the control of costs in relation to the production of ammunitions: management accounting is born. Wartime taxes increased the amount of taxation work available to accountants.

In 1914 the Prince of Wales National Relief Fund was formed. A Board of Audit Control was appointed to supervise income and control distribution. Local committees throughout the UK were formed and Institute members operated it for no remuneration. The Local Legislative Committee created an 'audit clause' by stating that where professional audit is used, the standards of the ICAEW and those of Society of Incorporated Accountants and Auditors alone should apply. This prevented new bodies of accountants from undertaking this range of work.

In 1918 the Society of Incorporated Accountants and Auditors changed their rules to allow the admission of women.

8. PERIOD BETWEEN TWO WARS

Since the end of the World War I there had been a major downturn in the British economy. Government promised a higher standard of living and security of employment. However, the productivity rate was falling rapidly due to the fact that it was a great effort to keep the traditional industries (cotton, coal mining and shipbuilding), which was difficult among the growing competition. The political program of the Labour Party increased social security measures. Workers received the "dole", which was probably the reason why there were no greater social unrests or revolutions.

Further mass unemployment resulted when Chancellor of the Exchequer Winston Churchill returned Britain to the gold standard in 1925. The return was made at the old pre-war gold and dollar value of the pound. As a result, the pound was devalued; British goods (coal, steel, machinery, textiles, ships, cargo rates and other goods and services) became over-priced, and Britain's share of the world export market declined rapidly. The resulting unemployment and wage cuts caused serious repercussions in the industrial areas, where strikes became common.

In the 1930's things improved a little under a national government. The abandonment of the gold standard and the decision to let the pound find its own value against the US dollar made British export prices more competitive in world markets. Agriculture was protected through introduction of protective tariff and import quotas in 1931. A building boom followed the increase in population. Old industries were replaced by new ones such as automobiles, electrical manufactures, and chemicals.

In 1919 Mary Harris Smith, a public accountant with a London Practice who was refused admission to the ICAEW because she was a woman in 1888, applied to join the Society of Incorporated Accountants and Auditors. The Society made her an Honorary Fellow as they had previously given up Council

powers to elect members in special cases without examination. In the same year the Sex Disqualification (Removal) Act was passed making it illegal for the ICAEW to bar women from membership. Mary Harris Smith renewed her application and became the first woman Chartered Accountant in the world. In 1920 Miss H. M. Claridge, the daughter of the President of the ICAEW that year, is the first woman to be admitted to the Society of Incorporated Accountants and Auditors by examination.

In 1923 British Association of Accountants and Auditors was formed. Four years later the Faculty of Auditors was formed.

In 1929 Sir Thomas Robinson, Chairman of the House of Commons Committee, called for the accounting professionals to set up a register of properly qualified persons to prevent unqualified persons from practising under the definition of the Revenue Act 1903 and the Income Tax Act 1918. In 1931 the Association of International Accountants was formed. In the period from 1933 till the beginning of the Second World War a number of associations of accountants working in various fields of industry were formed.

9. SECOND WORLD WAR

When Edward VIII abdicated in 1936, he was succeeded by his brother George VI. In this period the Nazis in Germany were becoming more menacing as Hitler grew more powerful and aggressive. Finally, Britain was forced to declare war to Germany after the German invasion of Poland in September 1939. Sir Winston Churchill became the war-time Prime Minister in 1940.

During the World War Two the area around Moorgate Place was badly damaged during bombing raids on London but the Chartered Accountants' Hall escaped save with a few broken windows. Approximately 3000 Institute members, over a quarter of the membership, served with the Armed Forces.

In 1939 the Association of Certified and Corporate Accountants was formed following the merger of the Corporation of Accountants in Scotland and the London Association of Certified Accountants.

In 1941 the value of accountants in the management of the war effort started a movement to give non-practising members some influence in the ICAEW and possibly representation on the Council.

In 1945, ICAEW organised weekend 'refresher' courses and regional lectures for returning servicemen in the profession. This later developed into a programme of 'Continuing Professional Development' that is still in operation today.

10. POSTWAR PERIOD

In 1945 the UK was bankrupt and its industry destroyed. It was gradually dismantled by granting independence to its former colonies in the period from 1947 to 1980's. Most of these ex-colonies formed the Commonwealth of Nations (approx.. 1.8 bn people).

Elizabeth II ascended the throne in 1952. Although she tried to rehabilitate the image of the monarchy, her children did not, making the headlines of the tabloid newspapers.

The 70's brought the oil crisis and the collapse of the British industry. The Conservative Prime Minister Margaret Thatcher privatised railways and closed down inefficient factories, which resulted in the increased gap between the rich and the poor.

Thatcher was succeeded in her party by the unpopular John Major. However in 1997, Tony Blair became a Prime Minister. His liberal policies and the support of the neo-conservative US President George W.Bush disappointed many Leftists.

The 1950s and early 1960s were a period of complacency for accountants, who were experiencing a boom in the profession. Several thousand accountants were qualifying annually, and accountancy careers became attractive to university graduates.

During the 1950s and 1960s, the largest accounting firms became increasingly international, with long-standing British firms merging with leading North American firms and US firms such as Arthur Andersen opening offices in London and other British cities. The "Big Eight" accounting firms had their own procedures for attempting to ensure consistent practice from one office to another, and this helped to create a climate for accounting standards issued by an authoritative organisation. The Accountants International Study Group (AISG) was established in 1966 to bring together representatives from the USA, Canada and the UK in order to identify best accounting practice.

The year of 1968 is very important for the accountancy profession. The ICAEW proposed two major changes to the profession. Firstly, a merger of the ICAEW, ICAS, ICAI, the Association of Certified Corporate Accountants, the Institute of Cost and Works Accountants and the Institute of Municipal Treasurers and Accountants into three geographical Institutes in England & Wales, Scotland and Ireland. Secondly, a reduction of the number of qualifications to two: the Chartered Accountant (signifying highly qualified) and the Licentiate Accountant (less qualified).

In the 70s a number of associations changed their names. In 1973, the Faculty of Auditors was absorbed by the British Association of Accountants and

Auditors. In the same year the International Association of Book-keepers was founded.

In 1977 the International Federation of Accountants (IFAC) was founded.

11. CONTEMPORARY ENGLAND (21ST CENTURY)

Nowadays, the English economy relies primarily on services. The main industries are tourism, education, music, fashion, prestige cars and food.

In 2002 the International Accounting Standards were adopted by the European Union with changeover target of 2005. In the same year the Proceeds of Crime Act made it an offence for accountants not to report suspicions about their clients to the National Criminal Intelligence Service (NCIS).

In 2003 the Institute of Company Accountants merged with the Association of International Accountants.

CONCLUSION

Accounting is an almost ancient system of keeping and maintaining the financial records of a business. It has always been a part of our history, but it became prominent when monetary systems were introduced.

The most significant development with regards to modern accounting occurred during the Renaissance period in Italy. In 1494 the accountancy world was revolutionised by an Italian friar by the name of Luca Pacioli and his book 'Summa de Arithmetica, Geometria, Proportioni et Proportionalita'. He described and explained many accounting practices that are still used today, including double entry book keeping, the use of ledgers, inventories, liabilities and expense accounts.

As the various industries of the world have developed, so too have their accounting needs. This is most apparent during the industrial revolution. As production and manufacturing industries were developing, businesses needed more effective ways of cost accounting. In 1854 the first professional accounting institution was formed in Scotland, making the accountancy profession official. Since the formulation of the 'chartered account' the profession has grown rapidly. Spreading to every corner of the globe, the need for an accountant is a must, especially within business. Accountants can help with many aspects of business whether it is designing and setting up an accounting system or simply ensuring that tax payments are correct.

The profession has a rich heritage steeped in a cross cultural history, from humble beginnings in the 15th century Italy to the forefront of the financial world. The profession has never been more popular.

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***Ključne riječi:** računovodstvo, računovodstvena struka, dvostavno knjigovodstvo, povijest Velike Britanije, udruge računovođa, ICAEW.*