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**Article**

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Journal of Accounting and Management Information Systems (JAMIS)

**Provided in Cooperation with:**

The Bucharest University of Economic Studies

*Suggested Citation:* Laptes, Ramona (2011) : A Fresco of the First Financial Reporting Attempts in Romania: The Period 1837-1920, Journal of Accounting and Management Information Systems (JAMIS), ISSN 2559-6004, Bucharest University of Economic Studies, Bucharest, Vol. 10, Iss. 1, pp. 74-92

This Version is available at:

<https://hdl.handle.net/10419/310454>

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## A FRESCO OF THE FIRST FINANCIAL REPORTING ATTEMPTS IN ROMANIA: THE PERIOD 1837-1920

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### ABSTRACT

*Researches on accounting history in Romania are sparse and generally overshadowed. The focus of this paper is to show a fresco of the first financial reporting attempts in Romania and also of the challenges that the drawing up of the first balance sheets brought about. The main conclusion of this study is that in Romania – same as in other European countries - during 1837-1920, commercial law enforced the drawing up and publishing of balance sheets; secondly, that evaluation issues were tackled superficially, and last but not least, there were no solutions readily available for drawing up balance sheets. More of the point, profit and loss account was seen as an extension of the balance sheet and was not reglemented at all, since all specialists focused on the theory and methodology of balance sheets.*

✂ Romania, accounting history, balance sheet, accounting information

### INTRODUCTION

Many times, as a professional accountant, I have asked myself what was the accounting profile in Romania during the different stages of society development and, in particular, what was the elaboration methodology for the first balance sheets in Romania. During the research I carried out, I came to realize that the majority of Romanian authors, up to this point, only documented the history of accounting, emphasizing its international context. Few specialists were interested in Romania's accounting history: Demetrescu (1972), Rusu (1981), Radu (1995), Ionașcu (1997) and Calu (2005).

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I should mention that, in their works, they didn't tackle the topic of financial reporting in Romania at the time when the first balance sheets were drawn up. Therefore, this study could be placed in an area that hasn't been the object of similar interests. In preparation for this study, I started from the classical thesis which says that economic theory is strongly conditioned by the requirements of economic reality at a given time. Technical literature sustains the hypothesis that the evolution of accounting in general is directly linked to the characteristics of the economic, political, social and cultural life, a conclusion also confirmed by the results of this study.

In Romania the issues concerning financial information when adopting business decisions appeared with a certain delay compared with other states in Western Europe which had a capitalist economic development – this was a consequence of maintaining feudal relationships in the organization of the economic life. Early Romanian authors - first decade of the 20<sup>th</sup> century - who specialized in accounting mistook a balance sheet for a trial balance, for example (Panțu, 1907).

A turning point for Romania's accounting was the translation done by Emanoil Nichifor in 1837 that became the first accounting work in Romania, written in the Cyrillic alphabet, under the name of *Pravila Comerciala* (Demetrescu, 1947).

Therefore, this research concerning the first attempts of drawing up balance sheets in Romania starts with the first accounting work in Romanian accounting literature. In this study I will critically analyze the Romanian accounting system from **1837** up to **1920**, a year that marks for the Romanian economy the end of early capitalism and the appearance of developed capitalism. Consequently, starting with 1920, Romanian economy developed with unprecedented speed, closely accompanied by the improvement of the accounting system.

Why did I choose to explore the theory, the legislation and the balance sheet practice in Romania in the period of 1837-1920? Between the two world wars the accounting culture knew an unprecedented development due to the economic context which was mostly favorable. In the period between the two world wars (1920-1939), the accounting specialists of Romania developed original accounting theories and thoroughly researched the balance sheet theory and methodology. Therefore, the few authors who were later interested in the accounting history of Romania, often referred to the achievements of the specialists from the interwar period, but they didn't investigate the early stages of balance sheet elaboration.

In this study I tried to formulate answers to questions like:

- When did the first concerns regarding the sharing of information generated by accounting appear?
- What was the accounting profile in Romania during 1837-1920?
- Did the changes in Romania's economic, political, social and cultural environment bring along changes in the accounting system?

- What were the main shortcomings of the financial reporting in Romania during 1837- 1920?
- Who were the main users of the accounting information?

I developed this critical analysis of the Romanian accounting system in the period of 1837-1920 on two levels: one concerns the legislation of those times and the other refers to the accounting practice of that age.

## 1. RESEARCH METHODOLOGY

When one starts out to research the history of accounting, the methodology has the following main tools:

- Historiography - the research of the works, studies and articles that were written in that specific time frame;
- Researching the documents drawn up by the companies of that time, which are still kept at the National Archives;
- Oral history - obtaining information by interviewing witnesses.

For this study oral history was excluded, obviously because of the times I was interested in. Therefore, the only remaining options are: the research of the first accounting works issued in Romania, the analysis of the first accounting laws and the research of the documents kept within the National Archives.

For the research of the first balance sheets elaborated in Romania, I investigated in 2007 the documents of National Archives of Brasov City. In Romania, the unfavorable historical context, especially the numerous wars, took its toll on the documentary resources, which were mostly destroyed. Based on the findings of the conducted research, I have come to the conclusion that Romania does not have a complete documenting system that would enable the proper research of the first accounting works and balance sheets ever drawn on Romanian territory.

For example, the first accounting compendium was published in Romania by Emanoil Nichifor in 1837 in Cyrillic, an alphabet that is today inaccessible to the large public. The Latin alphabet we use today to write in Romanian was brought back only in 1881 – the year the Cyrillic alphabet was made obsolete. Moreover, in Romania, old books are not accessible in all public libraries they are kept in special conditions and can only be read under special conditions. To complete this study, I also have read the main books that were published in Romania regarding balance sheets between 1837 and 1920, books still available in the Library of the Romanian Academy in Bucharest.

In order to research the methodology of drawing up the first balance sheets, I chose to study the documents kept in the National Archives in Brasov, a medieval city which was known worldwide for intense commerce in the period of time we are interested in. The purpose of this research was to identify the oldest balance sheets prepared in Brasov which have survived to this day, to analyze how they were drawn up and to highlight the changes that occurred in how the balance sheet of a certain business was drawn up and published between 1837 and 1920.

The access to the documents now kept in the National Archives in Brasov is conditioned by a request that explains the purpose of studying the documents and the profession of the interested party, and also by a special permit that gives access in the study room for only a limited period of time. In the time that I had access to the documents of the National Archive I requested to see the balance sheets of the most important businesses in Brasov between 1837 and 1920. Initially I had access to catalogues that contain information on the various documents kept to this date pertaining to different companies in Brasov between 1837 and 1920.

As a first step of the research, I identified the companies which were active in Brasov at the time, and whose documentation is still kept in the National Archives in Brasov. Subsequently, I identified all the documents drawn up by these companies and concluded that there are not balance sheets to be found among the documents kept in the National Archives in Brasov. The oldest balance sheet that the Archives have belongs to Tellman clothing factory and was drawn up in 1922. These findings don't necessarily lead to the conclusion that no company in Brasov was using balance sheets at the end of the 19th century. The employees of the National Archives in Brasov explained that many documents have not survived because of the unfavourable historical context: the period during the two World Wars.

## **2. A LEGISLATIVE PERSPECTIVE ON FINANCIAL REPORTING IN ROMANIA DURING THE PERIOD 1837-1920**

### **2.1. A few issues regarding the history of accounting in Romania**

In Romania, same as in other countries, accounting was practiced since ancient times, along with the organization of the first human settlements and the development of bartering, as an answer to the need of information these economic activities brought about. Although there are not many information sources left on Romanian territory, from the researches carried out in time by a number of specialists, it was noted that Dacia employed a careful accounting system in the mining field in order to keep records of the revenues generated by this activity (Demetrescu, 1972).

The territory of nowadays Romania was always a connecting bridge between Europe and the Far East, and as a consequence Romania had an important place on the map of international trading. The merchants of Brasov had a very important part to play in this context, a part which is very well known. The goods coming from the West into Walachia passed through Brasov and Sibiu on their way to Braila and Galati. Ever since the year 1556, Italians were coming to Brasov to buy wheat (Iorga, 1925). Moreover, the merchants of Brasov had frequent economic contacts with Moldavia and Walachia.<sup>1</sup>

It is not possible to overlook in this context the gaps that existed in the development of Romanian economy, compared with the Western European countries, with a direct and major impact on the way accounting was organized: if in Western European countries the industrial revolution started since the 17<sup>th</sup> century, Romania was still a divided country as far as borders were concerned right up to the beginning of the 20<sup>th</sup> century. Because of that, modern accounting in Romania was nearly absent until the beginning of the 20<sup>th</sup> century, its role limited to the technique of keeping some records.

The first accounting studies were published on Romanian territory only in the first part of the 19<sup>th</sup> century, with a delay of nearly three centuries compared to the Western European countries, and they mostly consisted of translations of some accounting books written by French, German or Italian authors. Ionașcu (1997) explains this difference in the development of a capitalist economy in Romania - much later compared to the Western European countries - :“the forms of the capitalist economy appeared on Romanian territory much later compared to Western countries.”

The Constitutional Regulations from 1831 and 1832 had a special role in the evolution of Romanian accounting because, through their contents, they set the basis of the public accounting structure and accounting education in Moldavia and Walachia.

In the year 1865, the public accounting law that was applied for the next 30 years was elaborated, with a number of changes. With the law from 1895, public accounting was gradually extended in other areas of public administration.

I state that none of these laws issued during the 19<sup>th</sup> century refer to the double-entry scientific system. Although accounting in the double-entry system becomes mandatory in Romania only by the law of 1929, the accounting records belonging to the merchants of Brasov and Sibiu show that they were familiar with the Venetian accounting practices ever since the 17<sup>th</sup> century. A lot of trading organizations used the economic calculation and Paciolo's double-entry system (Demetrescu, 1972).

From the research that I have carried out for the period we intend to analyze, namely the period of 1837-1920, I found that, in Romania, few elements were kept regarding the financial reporting theory and technique, which proves that, at the time, insufficient attention was paid to the necessity and the importance of publishing the information generated by accounting.

Besides, in Romania, like in other countries in the period of 1850-1920, there was an *entrepreneurial type accounting*, and the organization of accounting was generally left at the owners' initiative, which developed their own system of accounts, according to their needs. After the Second World War, this type of accounting became less important in the Anglo-Saxon countries, but continued to exist in countries where the stock exchange did not have an important role in financing different companies - Germany, France and Switzerland (Minu, 2002).

This study was elaborated on two separate levels - legislation and practice in the accounting field, both strongly connected to the historical context which was unfavorable most of the times in Romania: for example, Transylvania has known a different economic development to the Romanian Principalities. In Transylvania, the capitalist elements were implemented faster, consequently creating an important advantage in the economic life and, implicitly, in the accounting evolution, compared to the situation in the Romanian Principalities at the time.

## **2.2. Legislative coordinates regarding the beginning of financial reporting in Romania**

In 1928, as Slavescu mentioned in his study *Critical analysis of a company's balance sheet*, there were two main accounting systems:

- one permissive, which required the merchant to keep systematic accounting records for a clear overview of its patrimony, but which did not indicate any proper way to do this; in this classification are included countries like Switzerland and England, countries with an even more permissive policy, meaning that there was no obligation of elaborating balance sheets;
- one restrictive, which set mandatory accounting records and recommended accounting methods (Germany's), and which also required the legalization of registers before they could be used.

In Romania, the obligation to draw up balance sheets was stated for the first time in article 24 of the Commercial Code from 1887. In the first two decades of the 20<sup>th</sup> century, although in Romania there were many operating banks, only a small number were classified as important banks. The important banks published brief accounting reports, concentrated into a balance sheet that, most of the times, consisted of three positions: equity, debts and total assets (Dobroțeanu, 2004).

This deficiency in the financial reporting area can be justified by the fact that, in the first two decades of the 20<sup>th</sup> century, the Romanian accounting system was barely making a head start. Only after the First World War a capitalist society was outlined in the true sense of the word, followed closely, as a natural consequence, by a powerful accounting school.

These are the relevant legal aspects for the time frame we are referring to: the content of the Constitutional Regulations from 1831 and 1832, the provisions of the Commercial Code and the Public Accounting Law, elaborated in 1865 and frequently updated thereafter (Demetrescu, 1972).

A constant accounting system was organized for the first time in Moldavia and Walachia based on the Constitutional Regulations. The Constitutional Regulations, which were enforced in Walachia starting July 1831 and in Moldavia starting January 10<sup>th</sup>, 1832, implemented an administrative and financial organization unknown until that moment in the Romanian Principalities and set the stage for the public accounting development in Romania (Demetrescu, 1972).

Although organizing the double-entry accounting system only became compulsory in Romania in 1930, this does not mean that this system was not applied until that time. As I stated before, the merchants and the chambers of commerce of Brasov were familiar with and employed the double-entry system ever since the 17<sup>th</sup> century. Moreover, the important cities, apart from keeping records in the double-entry system, performed annual inventories of assets; the public administration of Bucharest created the first balance sheet based on these inventories and the double-entry system in 1925. Among the first institutions to adopt the double-entry accounting system were the Chambers of Commerce and Industry (Calu, 2005). What is certain is that, because of the shortcomings in the accounting system in the public institutions in Bucharest, right up to the 1940s, there hasn't been any preoccupation with quantifying Romania's national wealth.

Until 1887, the laws that regulated commercial activity were mistaken for the civil laws as there were no special provisions regarding the organization of commerce. Commercial law appeared only in the beginning of the 19<sup>th</sup> century and was stated in two codes: Calimah's Code in Moldavia and Caragea's Code in Walachia.

The Romanian Commercial Code from 1887 was inspired from the commercial law of the Kingdom of Italy from October 31<sup>st</sup>, 1882 (The Encyclopedia of Romania, 1944).

Transylvania, as it was under the reign of the Austro-Hungarian Empire, used all the commercial laws applicable in Austria ever since Empress Maria Tereza's time (1740-1780); this contributed to a better organization and a higher clarity in the commercial paperwork, compared with the situation in the two Romanian Principalities.



The Commercial Code of the Romanian Kingdom<sup>2</sup> was adopted in 1887 and required merchants to keep three registers: the Journal Register, the Inventory Register and the Copying Register. The obligation for the merchants to issue the balance sheet was formulated for the first time in the Romanian Principalities through the content of the same Commercial Code (1887), article 24:

*“The merchant has the obligation to elaborate at the beginning of his business and every year, under his own signature, an inventory of his mobile and immobile assets and his active and passive debts, closing the due balance sheet. This inventory as well as the balance sheet shall be copied in the special registers and will be signed. All the effects and active debts [claims – a.n.] must be evaluated in the inventory and in the balance sheet at the current price at the time of the inventory. The active debts, which are difficult to recover or doubtful, shall be evaluated with probability; the claims that won’t be collected shall be written only for documentation.”*

I specify that article 24 from the Romanian Commercial Code wasn’t explicit enough and wasn’t accompanied by further clarifications with respect to the evaluation method of the balance sheet elements and the way the balance sheet should be elaborated, which turned into a shortcoming for the merchants of those times, who were obliged to issue a balance sheet of their activity.

The publication of the balance sheet was a legal obligation only for the capitalized companies and the commercial law in Romania, in article 178, stated:

*“the managers have the duty to present to the censors, at least a month before the day set for the general assembly meeting, which shall discuss it, the balance sheet of the precedent exercise, together with the supporting documents, showing clearly in the balance sheet the following:*

- *the actual issued capital;*
- *the completed payments and the delayed payments;*
- *the actual profit and loss.*

*Eight days before the general assembly of the company, the balance sheet shall be published.”*

The applicable commercial law in the Romanian Principalities paid attention only to the balance sheet, and the profit and loss account had an insignificant role in the process of informing the public, the credit institutions and the shareholders. Besides, although the law did not require the publishing of the profit and loss account, the administrators of the capital companies sent the balance sheet together with the profit and loss account for publication in the Official Monitor.

The Romanian Commercial Code from 1887 highlighted, besides a multitude of commercial situations, aspects connected to the dissolution, merging and

liquidation of trade companies, and also elements related to the bankruptcy procedure. These events that are part of a commercial company's life were accompanied by the legal obligation to elaborate the inventory and the balance sheet. The companies acknowledged by the commercial law of 1887 were: the collective companies, companies with limited liability and the anonymous companies.

A future research concerning the way in which the legislative measurements from above were enforced, considering that there weren't any additional legislative explanations concerning the way the balance sheet was elaborated, in normal conditions, and also following some special situations from the company's life - fusions, liquidities, or bankruptcies - and with the evaluation particularities, would ensure a better comprehension of the accounting reality from the 1837-1920 period.

Moreover, the Romanian legislator didn't adopt a coercive attitude and the commercial law content was permissive because of the absence of repercussions in case of disobeying the law. I have this certainty also because I noted major differences between the legislative requirements and the deficient manner in which they were enforced, difference that persisted in the Romanian Principalities also in the first decades of the 20<sup>th</sup> century. Here is what the editorial board of the General Review of Commerce and Accounting wrote in the beginning of 1911<sup>3</sup>, when the accounting profession wasn't regulated and the basis of higher economic education wasn't established:

*"...nobody can elaborate a law if it doesn't acquire registration from a Bar, doctor can be only the one that has a certificate of free practice; the engineer must be a part of the technical corpus; but accountant...can be anyone!"*

Here is the proof that certainly demonstrates the limitations of the Romanian accounting system in the pre-war period: the accounting of merchants, public administrations or financial institutions was being done by individuals who didn't have the technical knowledge.

Regarding this issue, Ioachim described in 1911 the current situation at that time, in the pages of General Review of Commerce and Accounting, in the publication of September, 1911:

*"Today, as it was many centuries before, the same indifference towards accounting can be noticed. Nowadays, as before, anyone who can read and write can be an accountant, completely unaware of the important role that the accountant plays in the modern economy, as a guard of the public and private wealth."*

The above comes to demonstrate that, in the Romanian Principalities, in the 1837-1920 period, the accounting system was still in the sedimentation phase and was struggling to overcome the issue of shape without content, in the sense that, on one side, there were laws but no specialists that could best apply them, and on the other side, there were permissive legislative provisions, that made it possible for the merchants to avoid abiding the law.

The Romanian Commercial Code didn't have the constraint power where the obligation of elaborating the accounting registers is concerned. Many of the small merchants, that were predominant in the market at that time, didn't obey the commercial law and didn't draw up commercial registers, running their businesses in an orientated way, without the attentive organization of accounting. It was a reality a lot different from the conduct of the German and French merchants, who understood long ago the importance of organizing a rigorous accounting system and consistent with legislative criteria, which is the key of success of any business:

*"...today the German merchant is protected and always serves as a model to all nations. Why are the French the financiers of the whole world? Because they understood, sooner than anyone, than no nation can maintain itself in an independent situation, if it doesn't have its finances well established, well balanced." (Nedea, 1910)*

Moreover, the law was incomplete, also because it didn't prevent crisis situations from a company's life, such as bankruptcy:

*"... this is how we can explain why we have so many bankruptcies recorded daily and why our trade, especially small Romanian trade, is in stagnation and maybe on the wane compared with the foreign trade or compared to the past." (Nedea, 1910)*

Probably the biggest shortcoming at that time came from the fact that our commercial laws were copied after the German, French and Italian ones, that were applicable to a higher standard of commerce and it wasn't easy for the small Romanian merchants to assimilate them, as they didn't have the necessary education and financial possibilities for successful businesses. Moreover, they didn't develop businesses with the help of loans because the bookkeeping wasn't regulated and based on records, which is why they didn't have the possibility to access credits.

In this situation, it was necessary, firstly, to adopt a law that could establish the status of an accountant because, on numerous occasions, the person that took care of the accounting organization didn't have the proper knowledge, which inevitably caused errors and a lot of confusion.

According to the changes made to the Commercial Code from 1906, the mandatory registers for merchants continued to remain, on the basis of article 22: the Journal Register, the Inventory Register and the Copying Register, however, still, in 1910, there were merchants who didn't elaborate them. Moreover, the accounting registers weren't used by law courts in the cases of large scale bankruptcies, because many merchants didn't organize a regular accounting, built by a scientific way. The merchants' main arguments for this - false explanations however - were that, on one side, they had financial restrictions that didn't allow them to pay a professional accountant, and on the other side, they were wary of letting an outsider know they trade secrets. Although there were merchants who kept accounting registers, they didn't elaborate the balance sheet and the inventory, according to the requirements of the Commercial Code, article 24. A survey of a bankruptcy in 1910, noted that the company in question had not elaborated the balance sheet for eight years in a row (General Review of Commerce and Accounting, 1910).

In regards to the closing and sanctioning of accounting registers, the editorial board of the General Review of Commerce and Accounting formulated in June 1913 the following statement:

*"in practice, some merchants ignore the provisions of the Commercial Code which concerns keeping the registers, therefore some of them write in the Journal Register the operations, not daily and in detail as the law requires, but in block and only once or twice a month; and even these operations, written in this way, are only recorded in the Journal Register with a 2-3 months delay."*

Here are some elements that come to demonstrate the limitations of the Romanian accounting system during the two World Wars, possibly, mostly, due to the permissive and incomplete legislative sets, an aspect worsened, on one side, by the absence of accounting professionals - we mustn't forget the fact that the Academy of Economic Studies of Bucharest was established only in 1913 - and on the other side, by the lack of an attentive control from the state regarding the running of businesses and the way that the accounting information is processed.

### **3. CRITICAL ISSUES CONCERNING THE FINANCIAL REPORTING IN ROMANIA IN THE PERIOD 1837-1920**

In what concerns the *practice of financial reporting*, I considered that, for the period we are reviewing, due to the historical context, it can be relevant to research the archives of a company that functioned on the territory of Transylvania, province which enjoyed clear legislative provisions, had a large number of important merchants who had adopted a lot of the administrative skills and mentalities from their German colleagues.

From studying the inventory of documents that are still kept today in the National Archives of Brasov, an important commercial center of Romania ever since medieval times, I noticed that, for our subject and the examined period, the documentation analysis of the clothing factory **Tellman** is relevant; this is because the oldest documents in the Archives concern it and besides, it was one of the few companies for which balance sheets for successive periods of time starting with the second part of the 19<sup>th</sup> century were saved. For the rest of the companies registered in Brasov county starting with the second half of the 19<sup>th</sup> century, few as they were<sup>4</sup>, and mostly with foreign capital, the documents that survived mainly elaborate on commercial agreements, state payrolls, insurance agreements, the Large Book document, inventories and plans or commercial mail. For example, for the leather factory Miess, the National Archives of Brasov keep documents from 1899 up to 1920, but balance sheets only appear in the year 1925.

After requesting the entire fund of documents that concern balance sheets belonging to **Tellman** clothing factory, I noticed that the oldest balance sheets that were kept go back to the year 1922 and were written in German until 1925, although Transylvania was annexed back to Romanian territory in 1918.

The immediate conclusion can only be that Romania didn't have a data base encompassing enough so that it could accomplish an exact analysis of the balance sheet practice until the interwar period. What is certain is the fact that there was an important delay between the accounting practiced in Transylvania – much clearer, more rigorous and law-abiding – and the accounting from the Romanian Principalities, most of the times practiced sporadically and without observing the legislative requirements.

But what was the reality concerning the practice of balance sheet at the end of the period we are referring to?

Firstly, the balance sheet was considered a direct instrument, easy to use for the managers of the company, that served at enhancing the company's image in front of the shareholders, the creditors and the public:

*“if a company doesn't grow, but nevertheless continues to attract funds, this happens due to its managers, who know how to elaborate the balance sheet in such a way that it results in the good functioning of the company and the annual distribution of dividends, fact that increases the trust of the shareholders and the public. Thus, the very existence of the company depends on elaborating the balance sheet, as it shows at the end of the year the condition of the company.” (Teodorescu, 1915)*

The Romanian commercial law, although subject of many modifications, continued to remain permissive, unclear and sparse in what concerns the problematic of the

balance sheet. The immediate consequence: the lack of a uniform and logic nomenclature of accounts was making it difficult: “...even for a professional accountant to read and understand the balance sheet he hasn’t elaborated himself” (Teodorescu, 1915).

Here is Boltus’ opinion, formulated in 1912 after the analyzing the balance sheets published in the Official Monitor of that time:

*“In regards to the balance sheets, it’s been long-known that their composition leaves much to be desired as far as general exposure goes, and even more so where the grouping of the different active and passive accounts is concerned....Truly, not only once have I seen - published in the Official Monitor -, balance sheets so poorly elaborated that one has to ask himself whether they were drawn up in an accounting office or were they were done by amateurs. I am referring more to the balance sheets of large companies; the small ones might have palliating circumstances”.*

Concerning the balance sheets of big companies, Boltus observed that:

*“it was a blamable negligence of the accountants’ part to not bother to elaborate a balance sheet according to the most modern and perfect form. Mixing property accounts with availabilities accounts and with achievable capitals accounts; shareholders’ value accounts with third parties’ value accounts, produced a regrettable confusion that draws on and on from the beginning of accounting with no penalty for the guilty parties. It is about time, I believe, to right the wrong and start elaborating and publishing balance sheets as impeccable as possible.”*

The Romanian legislator was wrong to not make the publishing of the balance sheet and the profit and loss account in the Official Monitor compulsory to all merchants. The idea was loudly opposed by saying that by publishing the balance sheet business secrets are unveiled, thus precipitating the company’s bankruptcy. Many of the advocates of this trend were uneducated and caught in a mass inertia dictated by the majority, whilst others were well aware that it is to their advantage to run their businesses in a less transparent way.

Generally, the balance sheet was a true enigma for the shareholders and the creditors alike. More logic and clarity disclosing accounting information was needed. I need to mention that, not even after the forth modification of the Romanian Commercial Code from 1906, the last one from the period we are concerned with, did the law clarify the method of balance sheet elaboration. The company’s administrators continued to have the power to manipulate the accounting information as long as the legislator didn’t get involved in the procedure of elaborating the balance sheet. Things started to change only in 1923,

when the Direct Contribution Law came about. From that moment on, accounting in Romania was linked to taxation.

Moreover, the importance of the profit and loss account was minimized, and the legislative provisions only paid attention to the balance sheet. The result of the activity wasn't highlighted, only to be determined at the end of the year. The companies that published next to the balance sheet the profit and loss account didn't clarify enough the source of the result because the chart of the profit and loss account was mostly brief. This shortcoming was enunciated also by Ionescu, in an article published in 1912:

*“One of the unclear parts of balance sheet is that it is not clearly shown what the net profit is made up of, as usually only the total amount is published, with no further explanation. I won't bring into discussion the fact that the different losses that the businesses suffer are not indicated at all, and are being covered by benefits.”*

Not even the owners had a clear image about the true situation of the company: there weren't uniform criteria for recognizing and measuring the elements in the balance sheet. For example one balance sheet listed raw materials, materials in production and also manufactured products as wares.

The obligation of publishing the balance sheet by anonymous companies didn't have a practical utility as long as there wasn't a rational and methodic way for elaborating balance sheets. Only by implementing a uniform balance sheet it would have been possible to know exactly what the situation of the company was and to ensure that the accounting information could be compared in time and space. A first step in that direction was made by the banks in Germany, that agreed to give the balance sheet the same format starting with January 1<sup>st</sup>, 1912 and, moreover, settled to publish it once every two months.

This is how Teodorescu ended his study in 1915:

*“Nowadays there is a true anarchy in regards to the terminology of accounts, as it is left in the hands and at the whim of every accountant. Nowadays you can't find two balance sheets that are the same, not even from similar institutions, so that, many times, even a specialist finds it hard to decipher a balance sheet or to elaborate a comparative study.”*

Further along, Teodorescu signaled that in article 178 from the Commercial Code concerning the publishing of the balance sheets were not abided by. A number of companies distanced them from the commercial law and didn't ensure public information because the law was on their side, by not stipulating penalties in such cases.

The shareholders also didn't enjoy an honest briefing on the economic and financial situation of the company. By law, before the approval of the general gathering, the balance sheet, together with the censors' report, were given to the shareholders for examination.

*"But as the balance sheet does not come with any explanations, one can hardly expect that the shareholders who want to know what the numbers from the balance sheet mean will be able to tell how exact the balance sheets are. For this reason examining the balance sheet by the shareholders is illusory." (Ionescu, 1912)*

In the case of stock companies government control was exercised with the help of censors, who had the obligation to check the accounting registers throughout the year and check how the balance sheet was elaborated at the end of the year. But, once again, the accuracy and honesty of accounting information published at that time remained questionable, because most of the times the censors summoned to ensure the order and the accuracy of the accounting works, didn't have the necessary skills for this mission:

*"in the majority of the cases the report of the censors was a standard document, that they signed only to comply with the Commercial Code (article 180), therefore making the institution of censors also illusory....it is a curious phenomenon, that a handful of respected lawyers with political influence, busy beyond belief, appear almost all their life in the censors councils of our large stock companies." (Teodorescu, 1915)*

## CONCLUSIONS

From what we have presented in this study, we easily notice that Romania, in the period 1837-1920, had an accounting system that was still searching for its identity, a system in which, most of the times, confusion and uncertainty were predominant. The balance sheet theory and practice were in an early sedimentation phase and, as we have seen, there were many limits in obtaining and sharing the accounting information.

The importance of this study can be justified by the increased degree of knowledge of the accounting reality in Romania in the period 1837-1920 - period that is considered the beginning of the Romanian accounting culture and therefore has not been the object of any researches concerning the balance sheet theory and practice.

Few Romanian authors, interested in the history of accounting in Romania, insisted in their studies on the defining aspects of accounting in the period 1921-1947, years considered turning points for the Romanian accounting culture due to the important achievements of the Romanian specialists of those times. Because I



didn't find any information about the theory and practice of the first balance sheets made in Romania in the period 1837-1920 in the first studies of Romanian specialists that have tackled the history of accounting, my interest was aroused and I wanted to find elements that would give a fair overview and a better understanding of the accounting realities of those times.

The results of this study can be completed with future researches which should compare the similarities and differences between Romanian accounting and the main European accounting systems in the period of 1837-1920: those in Germany, France and Italy. Because of the historical context, there were significant disparities between the accounting system set up in Transylvania, which was directly influenced by the German model, and the one set up in the Romanian Principalities, which was much more flexible and closer to the French model.

Although German accounting stood out because of its clarity and the way it abode legislation, the implementing of balance sheets continued to pose some challenges concerning the classification of elements and the best way to note them in the balance sheets. Same as in the Romanian Principalities, the vast majority of French merchants were opposed to the idea of following a strictly regulated accounting system. According to Huber in 1909, not even 10% of the French merchants applied the legislative provisions of entering the company's transactions daily in the journal, and in this context it was normal that "in France accounting ended up being the least developed and the least popular of all sciences".

As a conclusion, in the period 1837-1920, France did not have a proper implementation of balance sheets as long as the merchants ignored their main obligation - that of keeping accounting registers. Demetrescu pointed out in 1972 that, same as in the Romanian Principalities, "accounting practice among the French merchants [at the end of the 19<sup>th</sup> century] was in a deplorable state, not only because of their mentalities, but also because of the insufficient professional training of the accountants of that time."

On the other hand, we have to emphasize the importance of knowing the accounting history as part of learning nowadays accounting. Today the accounting system is thoroughly regulated and students do not know the limits and consequences of unstandardized accounting system.

It is well known that if one doesn't know the history of certain events, he is bound to repeat them. In a similar manner, lacking knowledge of accounting history and its evolution, the future accountant bears the risk of putting forward reformative ideas whose negative consequences have been well proven in the past.

It is important for students to become aware of what a loose accounting system really is, perhaps by means of certain accounting courses that would touch on some

aspects I have researched in this paper. A future accountant must take into consideration that companies drawing up financial statements without abiding certain regulations or uniform standards can transform accounting into a tool to misrepresent reality and, worse, to manipulate the society to the benefit of certain minority groups. That can occur especially when there are no clear criteria to recognize and evaluate the contents of financial statements.

In practice, it is recommended that students are explained during accounting classes on theory and practice of drawing up financial statements in Romania, that companies prepared balance sheets as far back as the early 20th century – our research has documented this historically. Students have to know that nowadays practice of drawing up financial statements originates in the use of balance sheets. In other words, in Romania, the beginning of financial reporting was limited to using balance sheets, as the importance of profit and loss account was erroneously minimized during the first decades of the 20th century.

It must be stressed that in the first part of last century, theory and practice of balance sheets were lacking in Romania, in the absence of an entity that would regulate and acknowledge accounting as a profession. Immediate consequence: the first balance sheets in Romania consisted of few elements and generated a lot of confusion as there was no unity that help recognize structures. As an example, merchandise were mistaken for finished goods, customer claims were also mixed with shareholder claims (Teodorescu, 1915).

For a long time accounting was enforced without any regulations regarding its organization. It may have functioned satisfactorily with the help of personal experience, but lacking a good scientific base, it could not offer a sound accounting system. Each interpreted accounting in their own way without abiding the accounting theory: in short words, accounting was limited to a certain field of activity. Accountants would use the terms such as: commercial accounting, agriculture accounting, industrial accounting.

Looking back, we can not discuss the importance of financial reporting in Romania in the 19th century as during those times, accounting was a tool used to misrepresent the companies' financial position according to the owner's own interests; this procedure was enabled by a lack of demand for financial information from the state itself. The diversity of methodology and accounting practices used during that time created a lot of confusion about drawing up and interpreting the first balance sheets.

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## NOTES

- <sup>1</sup> The archives of Brasov keeps nowadays the commercial mail, documents and accounting records belonging to some old trade houses, that had commercial links with Vienna, Triest, Gratz etc., also with towns from the Romanian Principalities;
- <sup>2</sup> The Commercial Romanian Code suffered many modifications, in the years: 1895, 1900, 1902, 1906 and 1938, was abandoned in the economic leading period and was updated and reintroduced in the commercial activity circuit in Romania in 1994;
- <sup>3</sup> The General Review of Commerce and Accounting is the first review that appeared in Romania and that held the articles of the specialists in the fields: accounting, commercial education, finances, political economy, banking operation, trade. The first issue of the journal appeared in January, 1908. The journal had continuity until 1941, when due to the difficult conditions caused by the Second World War the publication stopped its activity. In 1956, after the reorientation of the whole Romanian society to the way of thinking promoted by the ex U.R.S.S, the journal reappeared as a press organ of the Ministry of Finance. Beginning with the year 1970, the publication changed its name into the Accounting Magazine. Immediately after the falling of the communist regime, in January 1990, the review continued its existence through a new issue, with the Review of Finance, Credit and Accounting;
- <sup>4</sup> at the National Archives of Brasov are on the list with industrial funds the following factories that developed their activity in Brasov in the period 1837-1920: The clothing factory Tellman (1864-1948), The Mineralöl refinery (1892-1932), the textiles factory Wilhelm Scherg (1889-1950), the beer factory Czell (1884-1952), the cement factory Portland (1888-1948), the leader factory Miess (1899-1948), the company Franck (1911-1951), the locomotive and wagons shops CFR Brasov (1906-1949).