The Development of Accounting in Ireland - The accounts of Maynooth College 1795 – 1832

Creide O'Brien

National University of Ireland, Maynooth

Abstract

This paper adds to the knowledge of accounting in Ireland in the late eighteenth and early nineteenth centuries. Using original archival research, the development of Irish accounting practice is examined by reference to the accounts of Maynooth College during the period 1795 – 1832. The accounting system used in preparing the college's accounts was that of charge/discharge. This was a system of accounting which relied on single entry of transactions and dated from the Middle Ages. The main purpose of the accounting system was to assist the Trustees in making grant applications to Parliament and to prove their stewardship of the funds entrusted to them.

1. Introduction

Those histories that have been written of Irish colleges and universities have tended to ignore the fact that these bodies have had to be financed. They have in the main been descriptive in that they were written to commemorate certain anniversaries and have tended to concentrate on the achievements of the staff in those colleges. They have for the most part ignored or dealt with in only a very cursory manner with the finances and the accounting systems of their organisations. This paper hopes to redress that imbalance.

Irish accounting practice in the early years of the nineteenth century is considered using the accounts of Maynooth College as a basis for discussion. These accounts have been preserved from the foundation of the College in 1795. They are unusual in that they are fully authenticated. This is the case because as will be discussed later the Commissioners of Imprest Accounts carried out an audit of the accounts each year. An official from this office signed each year’s accounts.

The study is laid out in five sections. The first section discusses the socio – economic situation of the period under review and examines the state of the accountancy profession in Ireland at the time. The second section considers the regulatory environment under which the college prepared its accounts and the effect of regulation on the accounts produced by the college. The third section reviews the accounting system used by the college. In the fourth section accounting concepts and rules followed in preparing the accounts are evaluated. The final section presents some concluding remarks.

2. Socio-economic environment 1795 - 1832

The late eighteenth century was a period of considerable demographic and economic change both in Ireland and throughout Europe. The population of Ireland had grown dramatically and the first signs of the Industrial Revolution were beginning to appear in the major cities of Dublin and Belfast. On the political front, the principles of the French revolution had spread throughout Europe and in Ireland the United Irishmen had grown particularly strong. The Catholic Church in Ireland also faced new challenges at this time. The Penal laws had meant that Catholics could not be educated in Ireland, with the result that many Catholics went to the Continent for their education. This applied particularly to those training for the priesthood. However after the French Revolution the seminaries in France had been closed down thereby closing off one avenue of education for men who wished to become priests. In 1792, the last of the Penal laws relating to the education of Catholics in Ireland had been repealed, and in 1793 a college was established in Carlow for the general education of young men. However Carlow College was established for the education of youth generally and not just for priestly training. At about this period it was clear to many that a rebellion was imminent (a rebellion did in fact take place in 1798) and the government of the time wanted to ensure that the Catholic clergy would support England. There was also the fear that so long as men went abroad for their training they would return to Ireland imbued with the ideas of democracy. Newman (1979), noted that as part of their case for the establishment of the college, the Bishops emphasised the danger of "contagion and infidelity" owing to the "pernicious maxims of licentious philosophy" to which students were exposed abroad. On 23rd April, 1795, "a bill for establishing a college for the better education for persons professing the Popish or Roman Catholic religion and intended for the Clerical ministry thereof" was put before Parliament. This bill passed through the Irish House of Commons without any significant opposition and was approved by King George III on the 5th June 1795.

During the late eighteenth and early nineteenth centuries there was no accounting profession as we would recognise it today. There was no governing body for accountants. Nor was there a standard setting authority as we have today in the ASB. Moves to create a professional body to govern and control the activities of practicing accountants only commenced around the mid-1800’s. These resulted in 1888 , in the grant of a Royal Charter establishing the Institute of Chartered Accountants in Ireland. The first Irish public accountant of whom there is any knowledge was Thomas Hogan, whose name appears in the Wilson’s Dublin directory for 1761. Robinson (1983), notes that the numbers listed as accountants over the next few decades until the end of the century did not grow very significantly. Moreover, most of those listed as accountants carried on other trades in addition to their accountancy practices. It appears that the economic environment of the time did not afford sufficient opportunity for accountants to practice accountancy alone. However a trend that did emerge was the growing numbers of those engaged in the teaching of bookkeeping.

The first known text on double entry bookkeeping was published in 1494 by an Italian monk, Luca Pacioli (Brown and Johnston, 1963). It was not until 1543, however, that the first English language textbook on the subject *The profitable Treatyce* , was published. Clarke (1996), in his paper discusses the early Irish accounting texts. The first of these, The Key of Knowledge, was printed by S. Ammonet in 1696. A number of other texts that were written between this first publication and the end of the eighteenth century are also discussed in Clarke's paper. These texts all deal with the topic of double-entry bookkeeping.

The evidence shows that although the accounting profession in Ireland as we know it today was virtually non-existent during this period, traders were familiar with double-entry bookkeeping and that it was accepted as a method of recording transactions. However as will be discussed later the double entry system was not practised in Maynooth College during the period 1795 – 1832.

3. Regulatory Environment

Maynooth College was established by an Act of Parliament in 1795, a period during which the philosophy of "laissez faire" prevailed throughout Europe. This was particularly true in the case of accounting and the control of government over business. However those organisations which had received public funding were subject to some degree of government control. Such bodies were required by law to prepare accounts which would then be audited by an official from the Office of the Commissioners of Imprest Accounts. A law was enacted to give the Commissioners power to examine those who prepared the accounts and any other relevant individuals on oath. They were also entitled to call for the underlying books and records. In the case of Maynooth College a grant was allotted to the college each year by Parliament. On the establishment of the college there were no regulations as to how the trustees might spend these allotted grant monies. The only reference to finances and accounting in the Act setting up the college was that the trustees were to account for the expenditure of the grant to the Commissioners of Imprest Accounts.

There was no Companies legislation governing the preparation of accounts during this period. Essentially those in charge of the preparation of the accounts of business enterprises could use whatever format they liked in presenting financial information.

Each year's accounts had to undergo an annual review by the Commissioners of Imprest Accounts. This function was carried out in later years by the Department for Preparing and Engrossing Civil Accounts. The officials from this office were referred to as auditors of the accounts in the college minutes.The auditors had the right in law to reject from the accounts "items not agreeable to the intent of the grant or power of the grantees". This power resulted in a number of items being added back to the "balance in favour of the public" in many year's accounts. For example in the accounts for the year ended 5 January 1832, a sum of £452 which had been spent on sports facilities was disallowed. The auditors stated in their report of that year that this expenditure was not allowable under the terms of the legislation, their argument being that sports facilities were not strictly speaking necessary for the running of the college.

It appears from a review of the legislation and the accounts of the college that the auditors imposed whatever disclosure requirements there were and that there were no such requirements laid down in legislation. All adjustments to the accounts are stated as having been made at the request of the auditors. There was no legislation backing up these amendments but the auditors and the Commissioners of Imprest Accounts had a powerful weapon to ensure that the college trustees would agree to any proposed amendments. Accounts had to be passed (or using the term in the legislation, declared) before they could be presented to Parliament in making the request for the following year's grant. A number of disclosure requirements were introduced in the period under review beginning with the year ended 5 January 1812. In that year's accounts the trustees were required to show the amounts owed to and by the college on the face of the accounts. This was done by means of a ***Statement of debts and credits.*** However this listing was not a complete one in that while the trustees might have known that an amount was due to or from another party, they did not know the exact amount. Thus only the name of the party would be listed and not the amount. Also while this statement was prepared in most years it was not prepared every year.

Another interesting feature of these accounts is that from the year ended January 1813, an auditors' report was in most years attached to the accounts. This report explained the reason for certain significant adjustments made to the accounts by the auditors. The report also made an attempt to explain significant fluctuations in the finances of the college from one year to the next – a precursor of modern day variance analysis. Most interesting perhaps for today's auditor is a sentence which appears to be the forebear to the concept of the "true and fair" view. This line in the report runs as follows, "A trustee, their secretary and Bursar were examined on oath and declared the amount which as amended by us is correctly stated and sufficiently vouched to be ***just and true*** in charge and discharge." This line is abbreviated in subsequent reports to "this account as amended is just and true."

As the college grew, it started receiving funds from outside benefactors and foundations were set up to benefit the students of the college. Prior to the year ended 5 January 1827, earnings from these funds were included in the accounts under the heading of amounts received from students. The auditors in that year directed that in future the interest from these endowments be listed separately in the accounts. They also required the trustees to prepare a ***Statement of Property and Funds***, showing the principal from which the interest flows arose. This requirement was complied with in all subsequent years under review except in the year ended 5 January 1829.

Information concerning the numbers of students attending the college was disclosed in the accounts from the year ended 5 January 1830. In that year the average number of students during the year was 96.

The final attachment to the accounts was a ***Statement of the Balance***. This was an analysis of the cash balance of the college as at the year end date. This would be analysed as amounts being held by the Treasurer, the college bursar, bank and lawyers to the college and amounts advanced to tradesmen in advance for work done.

Organisations such as Maynooth College, whose accounts were submitted to the Commissioners of Imprest

Accounts were required to prepare three copies of their accounts. One copy was for the party preparing the accounts, one for the Commissioners of Imprest Accounts and one for the clerk of the House of Commons.

4. The Accounting System

The college's main source of funding was a grant allotted by the government. During the period under review the trustees were obliged to apply for the grant on an annual basis. The grant had to be debated by Parliament before being allotted to the college. It fell to the trustees of the college to petition for the renewal of the annual grant, and it was for this purpose that the trustees held their principal annual meeting at the beginning of the year, in January or February. The accounts of the college were prepared for presentation to Parliament at this meeting.

The accounting system in use in the college in the period under review is illustrated in Appendix 1.

The system in place in the college was geared towards the annual grant application to parliament and to proving the stewardship of the funds by the trustees. On receipt by the trustees, all grant monies were handed over to the Treasurer. The grant was paid to the college in several instalments during the year. The treasurer was obliged to prepare an account of the money, which had gone through his hands during the year. This account was usually prepared on a six-monthly or annual basis. The treasurer's account was examined and approved by the president and the vice-president of the college.

The Treasurer's account started with the opening balance of cash held by the Treasurer. This figure was taken from his previous account. The amount of grant money received during the period was added to this figure in addition to income received from the College's investments, and monies handed over to the Treasurer by the Bursar from the sale of pigs, hay and other farming related activities.

The system in place in the College required that the Treasurer paid money to the Bursar for College expenses, which would then be paid by the Bursar. However an examination of those records which remain extant show that the Treasurer did not record payments made to the Bursar but relied on the Bursar's accounts for information as to how much was paid by him to the Bursar.

The Bursar recorded the day to day running expenses of the college and receipts of cash in a quarterly accounts book. This book was written up on a daily basis. The book is divided into three columns, showing the date of the payment or receipt of cash, the names of the individuals from whom money was received or to whom money was paid and a column showing the amount of the payment or receipt. Payments in this book were divided into sections showing those payments for beef, fish, repairs, furniture, salaries etc. At the end of each quarter the accounts were examined and approved by the President and Vice-president of the college.

At the year –end, for each heading in the accounts prepared for presentation to parliament, (provisions, salaries, post etc) each quarter's accounts were examined and the relevant figures extracted and totalled to get a final figure for the year.

The balance on the Treasurer's and the Bursar's accounts after all expenses for the year were paid together with money held in the bank or in the hands of the college's lawyers represented the final cash on hand figure which then appeared in the Statement of the Balance.

There was no separate daybook at this stage for purchases. No journal was kept for recording purchases or sales of fixed assets or for the payment of wages and salaries. All payments and receipts were entered in the quarterly accounts book and transferred from there into the final accounts book.

Issues dealing with the accounting systems and controls in place in the college were dealt with at the trustees' meetings. It was at these meetings that decisions were made approving expenditure on new buildings, appointment of new staff and the salaries to be paid to them. Internal regulations governing the preparation of accounts were passed at these meetings. A review of the minutes of the Trustees reveal the following resolutions. It was resolved at the very first meeting of the trustees that anyone using college money for their own purposes should be instantly dismissed. At their meeting of 16 January 1799, it was decided that on no account should the expenses of the college be allowed to exceed its income. At the meeting of 16 January 1800 it was decided that any monies issued on behalf of the college should be paid only to the President. In January 1808 the trustees resolved that a ledger should be kept in the college in which the quarterly accounts would be entered and presented to the trustees at their meeting. The trustees also had to deal with a financial crisis suffered by the college in 1817 / 1818 when expenditure was considerably in excess of income. A number of cost cutting measures were proposed by the trustees and put into place.

As mentioned above there was little reference to the preparation of accounts and accounting systems in the legislation establishing the college. The only requirement was that the trustees be able to account for monies received. However this did not mean that the trustees were allowed to spend with impunity. There was an annual audit carried out by the Commissioner of Imprest Accounts and in later years by the Department of Preparation and Engrossing of Civil Accounts. This would appear to have been a very comprehensive review of the accounts of the college. It appears from a review of the records that the auditors disallowed many expenses because no voucher could be produced for the expense in question or the total on the voucher was added incorrectly. This procedure itself gives an indication of the accounting system in the college since there obviously was a system whereby figures in the accounts could be traced to the underlying records.

6. Accounting Concepts and Rules

While a manual of the rules and concepts followed in preparing the college's accounts does not exist it has been possible to identify the main principles followed by those responsible for preparing the accounts. These can be analysed as follows:

Accounting System

The accounting system used at Maynooth was a charge/discharge one as opposed to an accruals or double entry system of accounting. Edwards (1989), describes charge/discharge accounting systems as those operated on the basis of single entry. Such systems were not primarily interested in performance assessment but rather in examining the stewardship of trustees or stewards over the assets of an organisation. Double – entry book-keeping, although growing in popularity amongst traders, was a practice with which the trustees of the college were either unfamiliar or unwilling to adopt. In this they would have been following the practice of other colleges and universities of the period. Jones (1991), notes that a charge/discharge system would have been the norm for colleges and universities at this time. He points out that it was only in 1882 when the accounting provisions of the University of Oxford and Cambridge Act became effective that Magdalen College dismantled their traditional accounting system. Indeed the LSE used a charge/discharge accounting system until the early twentieth century.

The charge at Maynooth was the balance of cash on hand at the start of the accounting period plus the grant received from Parliament plus any additional receipts from students, rents, sale of farm produce, investments etc. The discharge was made up of the expenses of the college such as salaries, food, furniture, and books and the erection of college buildings. The difference between these two figures was the balance "in favour of the public". This closing balance was the opening charge in the next year's accounts.

The system produced a statement showing the amount of cash on hand at the year-end but did not produce a profit and loss account or a balance sheet. It could be argued however that being a not – for – profit organisation that a profit and loss account was unnecessary.

Periodicity

A strict year - end accounting period was introduced from the year ended 5 January 1802. Prior to this the accounting year end date had varied with accounting periods of both less than and greater than twelve months being followed.

Year End Closing

Books were closed at the end of the period. All balances at the end of the period were carried down to the next accounting period.

Revenue and capital Expenditure

No distinction was made in the accounts between revenue and capital expenditure. This is a typical feature of a charge/discharge system. Payments for fixed assets were deducted from income in full in the period of purchase. Consequently, there is no mention of any kind of depreciation being carried out on the college's assets.

Cash basis Vs Accruals basis

Charge/discharge accounts were usually prepared on a cash basis. This is the case with the accounts at Maynooth where the cash basis was used for recording all transactions. All transactions entered into by the college were regarded as either generating an inflow or an outflow of cash.

The accruals basis appears to have been a completely alien one to the trustees and indeed to those government officials involved in the audit of the college's accounts. All revenues and expenses were recorded as they were received or paid. There are many examples of this in the accounts, for example insurance premiums which straddle a number of accounting periods are shown in the period in which they were paid instead of being split between those accounting periods to which they relate. Similarly rental receipts which related to several different accounting periods were recorded in the period of receipt rather than in the accounting period to which they related.

Final Accounts

The accounts produced by the College were presented to show the final cash balance on hand at the end of the accounting period. The total cash received for the year, (the charge), whether from Government, student fees, income from the sale of farm produce etc was listed, the total discharge (payments) for the year was then deducted showing the balance in favour of the public at the end of the year. This balance was then carried forward to the next accounting period.

A second statement referred to as the *State of the Balance*, showed who held the cash balance as shown in the final accounts. This statement showed how much of the cash was held by the Treasurer, the Bursar, the Bank of Ireland and how much was being held by traders as payments on account.

A third statement, the *Statement of Debts and Credits* was shown in most years from 1812 onwards. This statement presented a listing of the known debtors and creditors of the College. The usefulness of this statement is subject to question since the trustees often did not know the level of debts owed to or by the college and merely listed the names of the third parties involved.

The college trustees did not prepare a profit and loss account and balance sheet.

Payments on Account

Another interesting feature of the College accounts is that payments on account were never allowed by the auditors.

During the period under review, several very substantial buildings were erected. These buildings were built over a number of accounting periods, yet any payments on account were always disallowed by the auditors until the final settlement was made. An adjustment was made by the auditors to the year-end accounts adding back such payments to the "balance in favour of the public", (i.e. final cash balance). As noted in the previous paragraph this payment would have been listed in the second statement attached to the final accounts, the *State of the Balance,* as cash for which the trustees were responsible which was in the possession of the builder.

6. Conclusion

During the period 1795 – 1832 the trustees at Maynooth College in common with the governing bodies of many other colleges of the time did not use a double entry accounting system (Jones, 1991). The accounts of the college were prepared using the system of charge/discharge which dated from Medieval times. The system at Maynooth comprised of a quarterly account book in which transactions were recorded as they occurred (i.e. payments when made and receipts when received) and then transferred to the final accounts book. These figures were then amalgamated with the Treasurer's accounts to produce a final statement of income and expense for the year. There appears to have been no pressure for change to a double entry system from the government of the time. From an examination of the accounts however it appears that the system became increasingly inefficient as the college grew in size. The adequacy of the accounting system in place particularly with regard to income determination will be considered in a forthcoming paper.

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Treasurers Accounts

The Statutes at Large passed in the Parliaments held in Ireland from the third year of Edward II 1310 to the 38th year of George III, 1798.

Appendix 1 – Accounting System used in Maynooth 1795 – 183