

The merchants' accounts: double entry, balance sheets and control

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The Italian companies present at the Geneva fairs stood out for the breadth of their networks and for a technique that gave them a decisive advantage: double-entry bookkeeping. Developed in the Italian merchant cities in the fourteenth and fifteenth centuries, this method consists in recording each transaction twice, as a debit to one account and a credit to another, so that the sum of the debits always equals that of the credits. The Franciscan Luca Pacioli gave a systematic presentation of it in a treatise printed in Venice in 1494.¹

The great houses kept several complementary books: a memorandum or journal, in which transactions were recorded day by day, a ledger, to which they were posted account by account, and a secret book, reserved for the partners, which tracked each partner's capital and the distribution of profits.² The branches periodically drew up a balance sheet which they sent to the parent house. This document enabled the principals to monitor the conduct of the branch managers, to check doubtful receivables and to decide on the distribution of profits.

Accounting thus performed several functions. It served as an instrument of control, enabling the management to supervise staff who were several weeks' journey away. It served as the foundation of trust between partners, since the sharing of profits rested on verifiable accounts. It also served as a means of proof: a merchant's books could be produced in court to establish the existence and the amount of a claim. The instructions sent by the parent house to the branch managers, which set credit ceilings and rules of prudence, completed this system.

The continuity between these practices and those of the contemporary financial centre is striking. The Code of Obligations requires undertakings to keep accounts and to present financial statements in accordance with the principles of orderly accounting (Art. 957 et seq. CO). Financial

institutions are subject to structured internal control, to external audits and to supervision by FINMA. The fundamental principle remains that of the Florentine merchants: a dispersed organisation can only be managed if every transaction leaves an exact, verifiable and comparable trace.

Key points. Double-entry bookkeeping gave the Italian companies present in Geneva an instrument of control, trust and proof. It made it possible to manage branches and factors at a distance, to share profits between partners and to defend claims in court. The internal control and auditing of today's financial institutions carry this logic forward.

1 Notes

1. Wikipedia (en), "Summa de arithmetica": a work "originally published in Venice in 1494 by Paganino Paganini", whose section *Particularis de computis et scripturis* describes the double-entry bookkeeping, trial balances and balance sheets in use among the merchants of northern Italy; "the first published description of many accounting techniques, including double-entry bookkeeping". ↩
2. Raymond de Roover, *The Rise and Decline of the Medici Bank, 1397-1494*, Cambridge (Mass.), Harvard University Press (Harvard Studies in Business History, 21), 1963, xxii-500 pp.; Wikipedia (en), "Summa de arithmetica" (journal, ledger and memorandum described by Pacioli in 1494). ↩

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