

## A BRIEF HISTORY OF ACCOUNTING

Accounting was born before writing or numbers existed, some 10,000 years ago, in the area known as Mesopotamia, later Persia, and today the countries of Iran and Iraq. This area contains the Tigris Euphrates river valley, a large fertile area 10,000 years ago with a large thriving population and active trading between towns and cities up and down the two rivers. Writing and numbers would be invented for about another 5,000 years. And what happens next will directly lead to the invention of both writing and number systems.

At that time, merchants faced many of the same problems that businesses face today. They had to ship their merchandise up and down the rivers, and that meant trusting a boatman with their goods. Unfortunately, not all boatmen were honest, and disagreements often arose about how much was shipped versus what was received at the other end.

It is hard for us today to imagine a world without writing and numbers. Try to imagine yourself in their position.... what would you do?

To deal with the problem, merchants came up with an ingenious plan. They made small clay tokens, in various shapes and with various markings, to indicate different products. One would mean a basket of grain, another would mean a pot of oil, etc. They had over 200 such tokens to indicate a large variety of common goods, including food, leather, clothing, utensils, tools, jewelry, etc.



Bollae and tokens c. 3300 BC

Before shipping their goods, a merchant would take one token for each item in the shipment, and encase the tokens in a ball of clay, called a "bolla" (pronounced "bowl-eye") - meaning ball. The ball would be dried in the sun, given to the boatman, and then broken by the buyer on the other end of the transaction. The buyer would match the tokens with the items in the shipment, to verify that everything sent was accounted for.

This is the function of protection of assets and is a major function of all modern accounting systems. It was important 10,000 years ago and is just as important now. Today we see merchants doing the same thing as their counterparts 10 millennia ago - today they get a bill of lading - a listing of the merchandise entrusted to a shipper.

The system of using bollae continued for almost 5,000 years, all before the invention of writing or numbers.

When was trade invented?

Mesopotamia tribes were likely the starting point of the bartering system back in 6000 BC. Phoenicians saw the process, and they adopted it in their society. These ancient people utilized the bartering system to get the food, weapons, and spices they needed.

Over the centuries, trade routes have been established that connected places where goods were produced with people living in other places who wanted to buy these items. Often, specific goods such as salt and spices were scarce and in high demand. People wanted and needed these things, so they were willing to travel to get them or to pay others to get them and bring them back. The creation of trade networks involved roads between points, and these roads many times became well-traveled. Not only were goods transported over these roads, but people also shared knowledge, ideas, religious practices, and even illness in some cases.

## LUCA PACIOLI: FATHER OF MODERN ACCOUNTING



**Luca Pacioli was an Italian mathematician who published the influential book *Summa* in 1494 giving a summary of all the mathematics known at that time.**

Luca Pacioli was a remarkable man. He was one of the best mathematicians of his time, and was a close friend of Leonardo DaVinci. They collaborated on many projects. Pacioli helped DaVinci lay out his painting, *The Last Supper*, with mathematical precision. And Leonardo illustrated Luca's books on mathematics and accounting. History is full of instances of collaboration between these two great thinkers and Renaissance men. By the time Christopher Columbus was trying to sail west, a new form of accounting was in use by merchants in Venice. Luca Pacioli set down in writing for the first time a description of the double-entry system of accounting, which we still use today in much the same form. Although he didn't actually invent the system he is called "the father of accounting" for his contributions and for documenting the system in his fifth book on mathematics *Summa (Everything About Arithmetic, Geometry and Proportion)*.

Modern accounting follows the same principles set down by Luca Pacioli over 500 years ago. However, today it is a highly organized profession, with a complex set of rules for the fair disclosure and presentation of information in financial

statements. Every day trillions of dollars in transactions are recorded by business, government and financial institutions world-wide. They all follow the same general set of rules.

#### **ANSWER THE QUESTIONS:**

##### **Part A      Choose the correct answer**

1. Where is Mesopotamia, today?
  - a) Turquia, iran and irak
  - b) China and Japon
  - c) Canada and United States
  
2. Tigris and Euphrates are
  - a) Rivers
  - b) Countries
  - c) Cities
  
3. Why merchants faced many of the same problems that businesses face today? One is NOT correct:
  - a) They had to ship their merchandise up and down the rivers
  - b) The ancient time and today all boatmen were and are honest
  - c) today they get a bill of lading

##### **Part B      say true (T) or false (F)**

The ancient people utilized the bartering system to get the food, weapons, and spices they needed. ( )

A bulla is an inscribed clay or soft metal, used to indicate different products. ( )

a token is an object that represents something else. ( )

The bullae and tokens were made of iron. ( )

Specific goods such as salt and spices weren't scarce, and they didn't have high demand. ( )

Luca Pacioli was called the father of accounting" for his contributions and for documenting the system in his fifth book on mathematics *Summa*. ( )

Luca Pacioli invented the system of accounting. ( )