The applied theory of accounts

Esquerré Paul-Joseph
THE APPLIED THEORY
OF
ACCOUNTS

BY
PAUL-JOSEPH ESQUERRÉ, C.P.A.

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PREFACE

Just before the dawn of the French Revolution, there was, at the Military College of Brienne, a young student whom his classmates called the "Visionary." Never mixing in their noisy pastimes, he would spend hour after hour in his room, drilling tin soldiers on a large table. Dirt, sand, and pieces of glass became hills, fields, and rivers; twigs picked up in the playground were his cannon, while leaves, planted straight in the sand, were to him as forests. His tin soldiers were red or blue; some were mounted, and others, on foot. Night after night, while his comrades slept, the "Visionary" would pitch the blue soldiers against the red; the cannon would roar, and infantry and cavalry, pushed by his thin fingers, would fall dead on the battlefield.

A few years later, when the English fleet blockaded the port of Toulon, and threatened the existence of the Revolutionary Government, the visionary youth, now an officer in the army of France, pitched his "theoretical" knowledge against the "practical" knowledge of men who had grown gray under the soldier's uniform, and to their astonishment, and to the dismay of the invader, he discovered the one strategic point which rendered a battery of artillery so effective as to compel the immediate retirement of the enemy's fleet.

The young officer of artillery knew nothing of warfare but its theory; yet he succeeded where practical strategists had stood in impotent rage. Later, when he became Emperor of the French, it was said of him that his
unequalled knowledge of the theory of artillery operations won his battles before they were fought.

It is the purpose of this book to instruct the student in the principles of accounting, as the practice drills with his tin soldiers instructed Napoleon the First in the principles of war. May the conscientious presentation of these principles of accounts teach the young accountant how to win the bloodless battles of his chosen profession.

Accounting is essentially a militant science; if it remains passive, it must die. To live, it must war incessantly against carelessness, ignorance, inefficiency, evil-disposed cleverness, and, possibly, against dishonesty. Having won, it must rebuild where it has destroyed; but the new structure must be such that it can never again be successfully assailed.

The accountant is a judge to whom appeals are made by the employer against the employee; by the "cestui que trust" against the trustee; by the stockholder against the director; by the director against his associates or against the corporate officers or agents; by the government against violators of fiscal laws; by the trader, the manufacturer, and the financier, against the conclusions to be drawn from their own accounts.

He is also an adviser who must derive from the arithmetical results of books of account, often purposely confused, facts which will enable him to pass judgment upon financial conditions, to guide the judgment of others, to suggest remedies, and to devise means of safeguarding the interests of all parties, whether clients or antagonists. He must be capable of refuting conclusively all assertions which are mere speculation based on supposed or assumed facts which cannot stand the test of accounting analysis; he must be able to defend his ground by submitting proofs so fundamentally correct and so conclusive that they cannot be challenged; he must be so
familiar with the anatomy of accounts that the mere mention of a financial transaction will present to his mind a diagram of the position which the facts to be recorded will occupy in the books, and of the effect which they will have upon facts previously recorded; he must be able to perceive at once the accounting principle involved, and so to apply it as to compel figures to reveal that which they are prone to conceal from the uninitiated.

If it is true that no one can be a great detective who does not know the psychology of the human heart, and that a recruit cannot become an efficient gunner until he has been taught the theory of ballistic curves, it must be true that no one can become an accountant until he has learned the theory of accounts. If one is not so equipped, he may indeed make his way towards practical accounting truth by luck, by intuition, or by plucky determination, but, before he has reached this goal, he has consumed his energy, exhausted the patience of his clients, and too often failed to furnish valuable information at the opportune moment.

The theory of accounts has been evolved from the study of economic and financial conditions, from the development of commercial methods, from careful analysis of the results attained in industries old and new, from the application of the principles expressed by judicial decisions in litigation brought about through business relations, from the doctrines of the law merchant, of the common law, and of modern statutes. It is the outgrowth of centuries; and while its principles are immutable, they are, at the same time, susceptible of different methods of application, which though apparently irreconcilable among themselves, are worthy of consideration on their individual merits.

When about to pass judgment upon the actions of individuals or of nations, we are careful to inquire into
the motives which actuated them; and although we may not be in sympathy with the methods employed, we do not condemn them provided they were adequate to the purpose in hand. But when we come to accounting, we are naturally arbitrary; the purpose is forgotten, and the only question at issue seems to be the nature of the means employed. And yet, the question of adequacy is as vital to accounting as it is to all the undertakings of mankind.

The purpose of the baker of the rural districts of southern Europe, who in common with the majority of his customers is barely able to read and write, is better served by the sticks on which he notches his sales, than it would be by the most handsomely ruled ledger and cash book. Similarly, as the purpose of the small trader of all lands is to keep accounts with his customers and creditors, he need not trouble himself with what has been termed “the only scientific system of keeping accounts” (double entry), since single entry, much abused as it may be, is able to tell him all that he wishes to know, and is much better adapted to his mental equipment. If the merchandise account of a trader reveals the information of which he is in need, why should he heed the indignant protests of philosophers of accounting who tell him that there is really no such thing as a merchandise account, and that the use of complex accounts will rob him of the fruit of his industry, by hiding from him the business truth? And if the purpose of the modest manufacturer of a staple product, the market price of which is as well settled as the demand therefor, is to be as fairly successful as the conditions of his particular industry will permit, why should he be made to sacrifice a good part of his income, in order that he may know through the use of “production factors” or otherwise, the cost of every atom of the product which he manufactures?
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It has been asserted repeatedly that it is impossible to bring together ten accountants whose views will harmonize on any given topic of their profession. This will always be true to a greater or less extent, since the human mind is not adapted to the acceptance of a single standard of truth. But these divergent views will become largely harmonized just as soon as it is realized that if a student of surgery cannot be trusted with an operation until he has mastered the anatomy of the human body, the student of accounting cannot be trusted with the finances of a business until he has mastered the theory of accounts.

Paul-Joseph Esquerré.

New York City, September 1, 1914.
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