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Luca Pacioli, Father of Accounting

A SHORT HISTORY OF ACCOUNTING AND BUSINESS

Preface

The history of accounting is as old as civilization, among the most important professions in economic and cultural development, and fascinating. That’s right, fascinating! Accountants invented writing, developed money and banking, innovated the double entry bookkeeping system that fueled the Italian Renaissance, were needed by Industrial Revolution inventors and entrepreneurs for survival, helped develop the capital markets necessary for big business so essential for capitalism, turned into a profession that brought credibility for complex business practices that sparked the economic boom of the 20th century, and are central to the information revolution that is now transforming the global economy. Twenty-first century accounting will resemble rocket science and will continue to be among the critical professions of the new century. Accountants have not excelled in public relations, but their story is fascinating. And here it is.
There are no household names among the accounting innovators; in fact, virtually no names survive before the Italian Renaissance. It took archaeologists to dig up the early history and scholars from many fields to demonstrate the importance of accounting to so many aspects of economics and culture. This book covers the great events. From merchants and scribes long before writing and money, to today’s global information networks.

Accounting history is summarized in seven chapters. An overview places accounting in perspective. In some ways accounting hasn’t changed since Pacioli wrote the first textbook in 1494. On the other hand, accounting has led the information revolution. Many aspects of 21st century accounting will be unrecognizable by today’s professional leaders. Understanding the role of financial needs today and in the future requires an understanding of the past. The role of accounting in the ancient world is coming into clearer focus with new archaeological discoveries and innovative interpretations of the artifacts. It is now evident that writing developed over at least five thousand years—by accountants. The roles of trade, money, and credit also have long and complex histories. It is difficult to overestimate the importance of double entry bookkeeping. It was central to the success of the Italian merchants, necessary to birth of the Renaissance. The Industrial Revolution depended on inventors and entrepreneurs, not accountants. It is the survival of their firms that required innovative accounting and, later, the development of a profession. Big business, particularly the railroads, required capital markets that depended on accurate and useful information. This was supplied by the expanding accounting profession. The earliest of the Big Eight started in mid-nineteenth century London. Turn of the century America saw the rise of really big business, governable because of improvement in cost accounting. But the Crash of 1929 and the subsequent Great Depression demonstrated problems with capital markets, business practices, and, yes, considerable deficiencies in accounting practices. Many aspects of current accounting practices started with the flood of business regulations from the Roosevelt administration. The earliest electronic computers were funded to assist the World War II efforts. By 1950 massive efforts were begun to automate accounting practices, a continuing process. A global real-time integrated system is a near reality, suggesting new accounting paradigms replacing double entry and generally accepted accounting principles.

Why read this book? What we do today in accounting is based on a 10,000-year history. Understanding this history is necessary to comprehending the linkages of accounting to career potential, financial regulation, tax, accounting systems, and management decision issues. This history also is a powerful tool to predict the accounting of the next generation.
Overview—Accounting Toward the 21st Century: Where are we Now? How Did we Get Here?

Accounting at any point in time and place can represent the level of civilization then and there. As civilization began around villages and developed into empires, scribes invented record keeping systems and kept running inventories of wealth, trade, and tribute payments. Accountants invented writing using abstract record keeping as temple (and later imperial) wealth and complexity expanded. Double entry bookkeeping played a crucial role of Italian merchants’ superior trading skills. Would the Renaissance have been possible without double entry?

Business history involves long-term processes that incorporated dozens of specific innovations. For example, the Industrial Revolution included many inventions from Watt’s steam engine to Hargreave’s spinning jenny. Equally important were the entrepreneurs who used the inventions successfully, often combining several innovations to create a successful business, and the changes to society associated with a new urban labor class. The concept of time took on a whole new meaning. This was a revolution not because it occurred quickly, but because it changed civilization in fundamental ways. The middle class (that’s most of us) is a direct result, as is the associated mind set—the work day, commuting, a standard of living well above subsistence, and so on. Accounting’s role was primarily one of business survival, which led to economic innovation.

Railroad history is tied directly both to the Industrial Revolution and the development of capital markets to finance large business enterprises. After all, the locomotive was a steam engine turned sideways to drive wheels. The business people organizing the first railroads were big thinkers, planning the use of technology that did not exist. Railway surveying, roadbeds, tracks, rail bridges, tunnels, locomotives, and freight and passenger cars did not exist (except for prototypes). Capital markets were expanded and new contractual arrangements invented to finance railroad construction and operations. The railroads also introduced new accounting problems, like how to deal with a vast infrastructure that wears out or becomes obsolete.

The inventors and the entrepreneurs of the Industrial Revolution were not cost accountants. But the entrepreneurs that survived the inevitable depressions were. Continued success (and avoiding bankruptcy) required accounting expertise. Beginning in the 19th century the rise of the accounting profession benefited
business and investors, especially big business, banks, and other institutional investors. Accounting expertise added both knowledge and credibility to complex financial transactions.

The first mammoth monopoly was Standard Oil, organized as a holding company in 1870. The first billion-dollar corporation was U. S. Steel, formed in 1902. Henry Ford’s moving assembly line turned the automobile industry into a gigantic industry. Autos are useful to analyze the dominance of American big business in the first half of the 20th century and many of the problems in the second half. These include several accounting topics—both successes and stubborn problems.

British and American cost accountants and engineers developed calculations and reporting techniques that allowed the corporate moguls to control vast business empires from corporate headquarters. Part of the process was to buy out or destroy competitors, part of the business history. It is not clear that these practices were illegal or considered unethical. In any case, accountants were willing participants. The cost accounting (and to a lesser extent, auditing) techniques were essential to the dominance of American industry in the first half of the 20th century.

Monopoly practices, price fixing, speculation, and market manipulation are part of the Big Business story. So are the market collapse of 1929 and the Great Depression. This massive market failure led to bigger government and increasing regulation, including the securities markets and accounting. Accounting is highly regulated directly because of government response to perceived market and accounting abuses. The role of government is subject to continuing debate, but there is no doubt about the direction of government in the 20th century. The Reagan Revolution may have slowed down the process, but certainly didn’t reverse it.

The current world of business and accounting is based on the computer and the Information Revolution, which has been ongoing for nearly 50 years and is exploding into the 21st century. The computer proved to be a perfect fit to business. Computers efficiently crunch the repetitive transactions of accounts receivable and payable, inventories, and payrolls. IBM had the vision early and Big Blue dominated the history of business mainframes and became a billion dollar blue chip multinational. Technology exploded and new industries (and billionaires) created: personal computers, networks and the Internet, and "killer applications" software such as the electronic spreadsheet. The explosion continues as business and accountants struggle to keep pace with incredible technology progress.
Capital markets are complex, global, operate 24 hours a days, and rely on accounting information. The role of accounting expands as technology advances. Soon, virtually any information can be transmitted instantaneously across the globe. Who will be up to the challenge? The visionaries will most likely succeed, those with 20th century blinders likely to drop by the wayside.

To understand accounting today and predict tomorrow, one must know the history of accounting. That accounting history parallels the rise and development of civilization. Accounting has been surprisingly inter-connected with technology. The accounting-technology-civilization connection is the focus of this book.

Sumber : http://acct.tamu.edu/giroux/Shorthistory.html