

## J. SAVARY’S COMMENTARY — HISTORICAL ASPECTS IN DEVELOPMENT OF THE ACCOUNTING REPORTING\*

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### ABSTRACT

On development of bookkeeping a great influence has rendered theory of balance Savary Jacque's diversity which is the basis of statistical accounting aiming to prevent from bankruptcy, and it also had a great influence on further development of dynamic accounting, the aim of which is to reveal the fiscal result. The point of Savary Jacques's theory is that the interests appoint the aims of drawing up the balance. We draw up different balances for different purposes, which include uneven amount of property and the concrete estimating methods should be used.

Savary Jacques's ideology is quite actual nowadays too. This can be clearly seen when comparing three types of accounting over the last hundred and fifty years. Such ideology is especially important for Russia, which during a long period of planned economy took no effort in the field of static accounting, and right now it is on the way from dynamic to actuarial accounting.

**Keywords:** Ordonnance de Commerce. Savary Jacques's commentary. The theory of balance diversity. Interests and aims. Discrete inventory. Fictitious liquidation. Price of possible sale.

**Jel Code:** M40, M49.

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## J. SAVARY'NİN YORUMUYLA MUHASEBE RAPORLAMASININ GELİŞİMİNE TARİHSEL BAKIŞ

### ÖZ

İflastan korunmayı amaçlayan ve istatikselsel muhasebenin temeli olan Savary Jacque'in denge teorisi, muhasebenin gelişimine büyük katkı sağlamıştır. Bu teori, dinamik muhasebenin gelişimine de etki etmiştir. Savary Jacques'in teorisinin amacı, çıkarların dengeyi kurmanın amaçlarını tayin etmesidir. Eşit olmayan mülk miktarı dahil olmak üzere farklı amaçlar için farklı bakiyeler oluşturduk ve somut tahmin yöntemleri kullanmaya çalıştık.

Savary Jacques'in ideolojisi günümüzde de oldukça günceldir. Bu, son yüz elli yıldaki üç muhasebe türünü karşılaştırırken açıkça görülebilir. Bu tür bir ideoloji, planlı ekonominin uzun bir döneminde statik muhasebe alanında hiçbir çaba sarf etmeyen ve şu anda dinamikten aktüeryal muhasebeye doğru giden Rusya için özellikle önemlidir.

**Anahtar Kelimeler:** Ticaret kanunu. Savary Jacques'in yorumu. Denge çeşitliliği teorisi. Ayrık envanter. Fiktif tasfiye. Tahmini satış fiyatı.

**Jel Kodu:** M40, M49.

### 1. INTRODUCTION

*Legislative fixation of practice.* Legislatively existing practice was legalized for the first time in 1673 in the Ordonnance de Commerce. *In connection with the intensive development of business undertakings, unsatisfying state of credit and frequent cases of bankruptcy, the necessity to increase the role of state in economic life, to intensify the guarantees of law and order, and to defend creditors' interests has occurred.*

The Ordonnance de Commerce consisted of 12 parts and 122 articles.

Pointing to the need to draw up the inventory, J. Savary writes, “His Majesty thought that the merchants needed the order of forming the Inventory so much, that he introduced a special Article in the Ordonnance dated March 1673, which is the eighth in the third Part, and the content of which is all merchants will be expected ...within the space of six months...to draw up a signed inventory of their movable and immovable property (effects) and of their active and passive debts, which will be verified and started up again every two years” [1, p. 320]...

“To moments of this article are worth mentioning”..., the ones, that not many researchers pay attention to, “the first is that all the Merchants had to draw up their personal inventory in a six-month period of time after the Ordonnance had been published. This inventory would cover all their property, both movable and immovable, to see the general state of their business activity, in case of failure to be able to justify his actions and to report to his creditors, at least, for the period the inventory was drawn up” [ibidem]. As Savary states, “... the article is aimed to establish an order and the conscientiousness in Commerce”. This very

act was suppose to eliminate the real bankrupts from the market and to draw the attention to the heading catastrophe over the potential bankrupts.

“The second one”, comments Savary, “is, that the Merchants had to draw up their personal inventory in a six-month period of time after the Ordonnance had been published; but they also had to renew it every two years to keep a good order during the whole period of their trade activity” [ibidem].

Title XI, Article XI, advises that “tradesmen and merchants, wholesale or retail, ...who, in the event of bankruptcy, do not present their registers and books, signed and authenticated, as specified above, may be considered guilty of fraudulent bankruptcy” [1, p. 253]. The text of Article XI, first of all, indicated that if the traders and the merchants turn out to be bankrupts in a six-month period and would not present the reports, which would prove their liquidity on the date of the inventory, we will be charged with cheating. The cheaters were also called the traders and the merchants who failed to keep their business in order and had no liquid report on the date of the latest inventory which is not over two years.

Article XII of the same part warned about the serious punishment for such kinds of crime: from the imprisonment to the death penalty [1, p. 253].

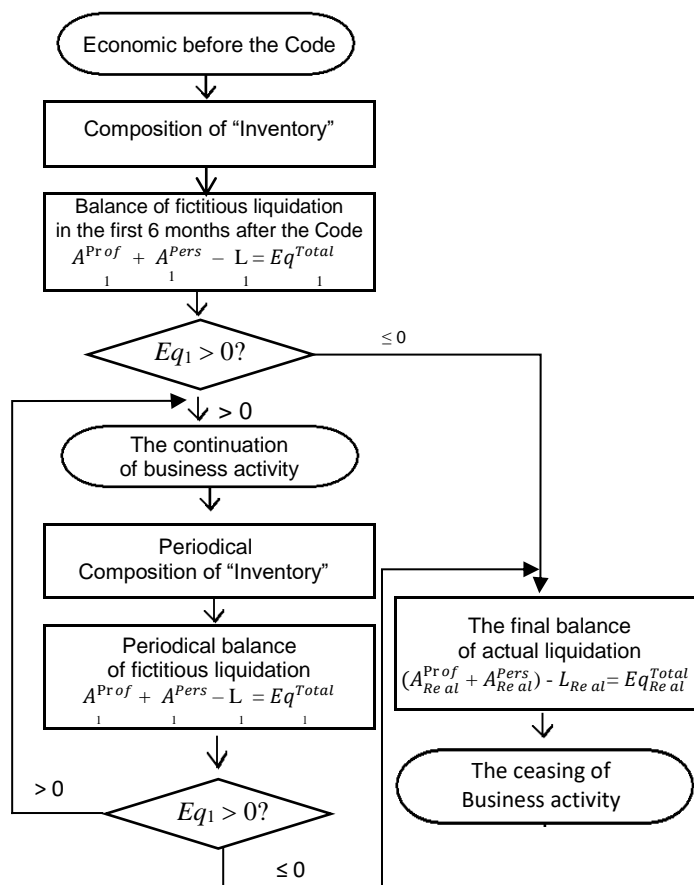
Thus, Ordinance, which contains no commentaries on the composition of the Inventory, had just one aim: to eliminate all “unlucky” traders from the market in six months, and then to check on the bankruptcy not rare than once in two years. There was nothing said about the revealing of the financial result in the Code. The algorithm of Ordinance requirements fulfillment is described in pic. 1.

As it can be drawn from the Code, Savary J., its main author, singles out three obligatory rules for keeping the accounts:

- obligatory documentation of all economic facts and provision the papers with legal strength during the legal proceedings;
- property inventorying;
- entrepreneur’s self-informing about the state of business.

*The demand to provide primary papers with legal force is arisen in the Code for the first time.* In Luca Pacioli’s time and further 200 years the rule of providing with legal force during the legal proceedings was applied only to the “trade” (accounting) books.

In 1549 Shvaiker V. clearly stated the role of the primary documents in bookkeeping. He formulated the rule: “there is no entry without documents”. Kazanova A. (1558) did not mention Memorial and it is presumed that the entries in Journal are made on the basis of primary documents [2, p. 69]. The representatives of French school, who developed Italian writers’ ideas, also doubt the necessity of keeping Memorial [2, p. 101]. M. van Damm (1606) insisted on its substitution with primary documents as the only reason for all bookkeeping entries. It was a very important step towards the coming to be bookkeeping in the modern form. J. Savary’s contribution is that it was him who in 1673 provided primary documents with conclusive force (it acceptance in court during a trial).



Pic. 1. The Algorithm of Ordinance Requirements Fulfillment

*Inventory of the property.* In 1958 Zybon A., a trustworthy researcher of the Ordonnance orders, stated that “the inventory regulations were given their juridical acknowledgement in this very document” [3, p. 28].

Savary underlined the advantage of the regular inventory. Speak of the frequent cases of the bankruptcy, Savary writes, “Does not this happen due to the fact that they never drew up the Inventory to know the state of their business; is it not true to say that if those to whom this misfortune (bankruptcy) has occurred had kept an inventory every year, they would have avoided this misfortune? There are even those who failed because they paid for an enormous wedding of their children, considering themselves wealthier than they really were”. “...It is also true to say that those who are not familiar with inventories ... that they are not really good at keeping up with their affairs”... “Is it not ridiculous for a man to say that if he has no associates whatsoever, that he need not keep an inventory, is he not under an obligation to draw up an account for himself?, ... isn't it a big carelessness to live in such negligence”. ... “...I have seen the merchants, who made four-five hundred thousand livers, and who never neglected their duty to draw up the Inventory each year, thus, they happily led their business successfully, and they also left large property to their children” [1, p. 321].

... “Therefore, young people starting out in business should draw up their inventories at least every other year, following the stipulations of the Ordinance; it would be

even better to do it annually; because it would be to their own advantage in governing their affairs and would make their businesses work better and be more profitable” [1, p. 321—322].

In Chapter 33 “About the order for the retail merchants, who trade widely, of doing their business and about the order of keeping their Ledgers” Savary concretized the regulations of Title III Article I and Article XI, Title XI Article XII. In Chapter 38 “About the order how the merchants should keep their inventory books in accordance with the latest Ordinance” the regulations of Title III Article VIII are thoroughly explained.

*In order to provide the entrepreneur with self-information* Savary J. made reporting legal again (if count that it took place in Florence at the end of XIV century), based upon periodical physical inventory.

Thus, the inventorying serves three main purposes which Savary J. advised to draw up the balances for:

- guaranteeing the safety of proprietor’s property;
- calculating economic financial result in order to capitalize and manage it;
- revealing of the estate state, *i.e. to indicate the sufficiency of the enterprise’s estate to cover the promissory notes.*

## 2. METHODOICAL PROVISION

The Code did not describe the bookkeeping procedure and the possible methods of keeping the books. When J. Richard comments on the Code, he writes, “These texts provide little help with our subject since they give *no indication* of valuation. Although the obligation to keep regular inventories examinable every two years is interesting, there is no information on the style of accounting required. Fortunately Jacques Savary’s commentary is available to us” [9]. In this connection Richard places all his hopes on Jacques Savary’s commentary, the main author of the Code [5].

Two years later (in 1675) Savary had written the book “Le parfait negociant”, which many researchers see as the Commentary to the Ordinance. Here Savary would describe the way how the composition of the inventory would have been done two years before. He would also give advice how to evaluate it. Savary would act as a true manager and would put the balance of financial result into the first place” [1, p. 321].

Thus, for Savary as for a jurist, it was just enough to draw up a fictitious liquidation balance, but as the manager Savary always places the balance of effectiveness of investment capital (financial result) into the first place. That is why in Chapter 33 he states that there is no difference when the inventory was drawn up (since the start of his business, or since the last inventory), but it is always important to know whether he gained profit or suffered losses.

Savary was the first to raise the question of expediency of applying the bookkeeping data to the management.

In case of insufficiency of property to cover the promissory notes, the business activity of economic object is aborted and a liquidation balance is drawn up. If the situation is positive, the business activity of economic object continues, and the inventory, according to the Code, is drawn up not later than in two years. In the first and second cases Savary gives preference to the balance of effectiveness of investment capital (financial result). The merchant or trader should know the state of his business. After it he has to prove to the contractors his ability to pay off his debts that is why the balance of fictitious liquidation is drawn up. Further, the situation is the same to the drawing up of the inventory of 1673.

Savary believed that to have one balance for all the purposes was not just enough and proposed a deferential approach:

- to calculate the revenues (inventory);
- to valueate the property state of the company;
- to reveal the consequences of the true termination of business activity.

Nowadays one of the last scholars, who studied the theory of balance diversity, was a French professor J. Richard, who gave to the first to balances introduced by Savary modern names: dynamic and static [4; 5, p. 68].

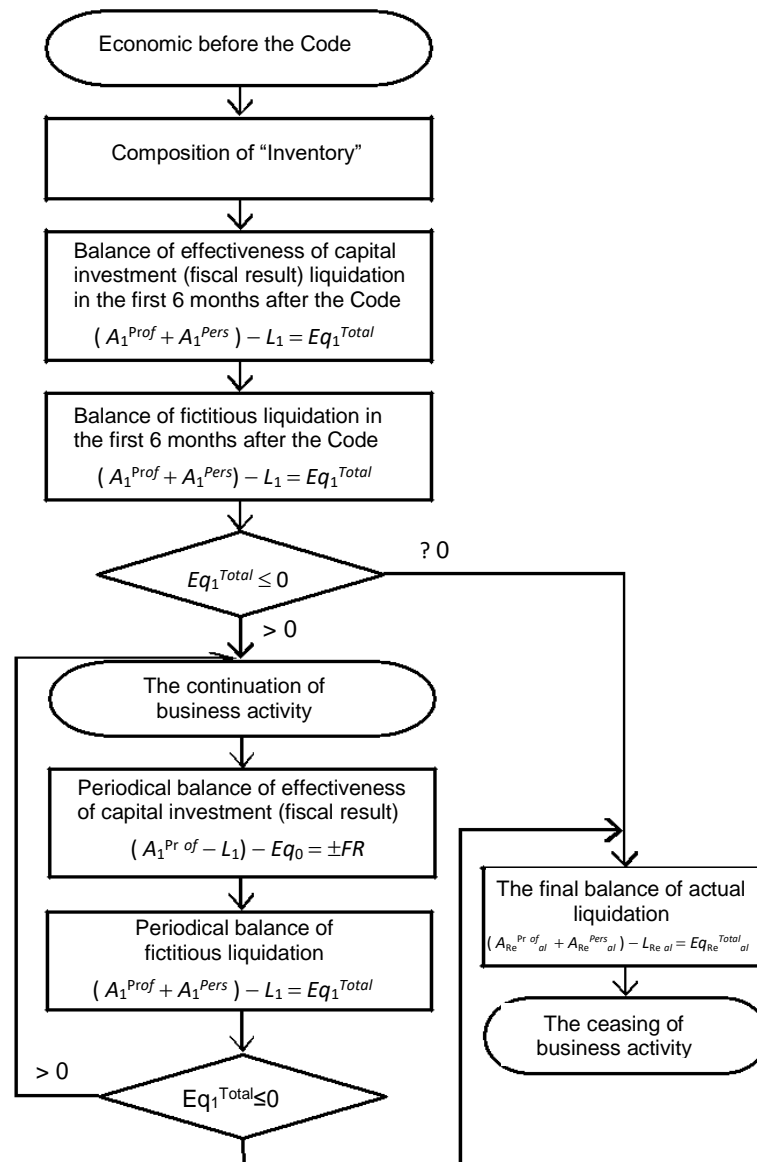
Here is our understanding of Savary's theory of balance diversity, pic. 2.

First of all, we would like to underline one very important moment, which is usually left without any attention by the scholars who study the works by J. Savary. As a rule, all describe the order to draw up the inventory not less than once in two years. Some, for example J. Richard, react on the fact that "Savary orders to draw up the inventory every two years, but in the example cited in Chapter 39 an annual inventory is described" [4; 5]. Nobody pays attention to the regulation of Article XI Part XI, where it is required to draw up the inventory in a 6-month period after the Code went into force, and, correspondingly, to draw up the balance of fictitious liquidation to establish if the there is enough property to cove promissory notes.

From the Code point of view, it gives us the right to put the fictitious liquidation balance drawn up upon the inventory into the first place. The Code has got the State and not local (a merchant, trader or entrepreneur) status. The aim of the Code is to establish legal economic order — there is no place for bankruptcy in the market!

Here is our understanding of the theory of Savary Jacques's Balance Diversity. Here we should indicate some criteria [6—9]:

- interests;
- aims;
- property;
- evaluation.



Pic. 2. The scheme presentation of the theory of balance diversity according to "Le parfait négociant" by Jacques Savary

*Interests* (creditors, proprietors, management) indicate the aims for drawing up the balance (fictitious liquidation of an enterprise, actual liquidation of an enterprise, the effectiveness of capital investment); aims indicate the structure of property which is included into the balance (competitive mass — personal and professional property or just professional), and *applying valuation* (current market value of possible or actual sale or historical cost).

*Balance of effective capital deposit.* In chapter 38 Jacques Savary explained the bases of the drawing up inventory balance to make the financial results. The real example of drawing inventory list and balances based on trading equipment is shown in 39. In pp. 331—346 of the book "Le parfait négociant" "the record of the inventory list which has to be done every two years in accordance with the Code to be the example for traders of golden and silvery fibers,

silk, thick woolen cloth and also the example for other traders who sell the goods per “aune” (old length measure equals to 1.20 m).

*Composition of “Inventory”*. First of all Savary mentions that “The traders who are the members of the unions have to list goods in their records in the following way”. For God’s sake. General record of the whole property which this or that member of the union has in the form of goods or in cash, active depths which have to be paid as well as passive depth which we have to pay. Date and year...”. “...Those who are not the members of the union but trade as merchant can make their records in the following way: ”the general list of all my property in goods, cash, active depths which have to be paid as well as passive depth which we have to pay as well as moveable and real estate Date and year...”.

According to this text only individual traders have to note in the records their professional and personal property whereas members of the union — only professional one which is used in business. Savary gives the explanation referring to the Code: “Article VIII, part III of the above mentioned Code obliges you to make the list of the whole property moveable and real estate. Thus, those who make the business in commerce both sole traders and unions have to show it in the records of list”. “...It should be mentioned, that I haven’t said in the Records about two-members unions the fact that they have to state moveable and real estate because their union was created only for the sake of their goods but not for their moveable and real estate which in its turn is not common and that’s why there is no necessity to state it in the list. I think that in conformity with the Code members of the unions wherever they are have to make the Records or their moveable and real estate in order to make the report of their action for the creditors in case of bankruptcy and to show the state of their business in general and in details up to the day of drawing up Record which they have to make in 6 month”.

Thus, it is clear that the professional and personnel property will be involved in the subsequent balances. However in the record of union property their personnel possessing is not to be mentioned because it is not union property. Moreover each member has to state his personnel movable and real estate in separate list. It should be mentioned that in the example of inventory record Savary gives the list made for the union.

Savary pays attention to the critical date of drawing the inventory, “to draw up the Inventory one should choose a month of the year, when there is the least number of deals, so nothing would interrupt, and when the traders have more time to count the goods, and to do the complete revision of it. I believe, that August is the most suitable, because the trade is almost dead and that is why there is the least number of deals” [1, p. 322].

The next very important issue, which was discussed in Chapter 38, was the valuation of goods (professional property). Savary is not interested in the possible selling price of the goods, which can either raise or low the revenue, the revenue which does not exist in reality yet. His main contribution is his recommendation how to value the goods at the cost price, in this case “when they are sold the revenue will be reflected in the balance of the next period” [1, p. 325] in a form of cash flows or the purchasers’ debts, which exceeded the cost of the sold goods.



Savary considers only three exceptions when refers to the valuation at the cost [1, p. 325]:

- the price of goods can be valued lower than the cost, if it was lower by the producer or the wholesale prices went down;
- the prices for the out-of-date goods went down;
- the prices for the damaged or unsuitable for sale goods were considerably lowered.

Ter Vehn Albert offers his own translation of J. Savary's commentaries: "Here we should also understand how the prices are fixed. That is why we should avoid estimating the prices higher than they are for the present moment, because it can lead to the situation when you are rich "only on the paper" [10, p. 18].

A technical detail draws attention to itself: Savary finishes each page of inventory with growing total since the beginning of the inventory, and the new (next) page of the inventory starts with this accumulated total. In the cited example in Chapter 39 the growing total on page 332 equals 3683.15 liras [1, p. 332]. Page 333 begins with the text: Ter Vehn Albert offers his own translation of J. Savary's commentaries: "For the total sum, indicated opposite, is 3683.15 liras". Such approach provides with the safety of included information into the inventory, strengthens page-by-page control, and eliminates the falsification of the data in future. The first page of inventory is shown in photo 1.

In the given example of the Inventory "Total sum of the goods value in liras" is 25586.18.7 [1, p. 345].

332 CHAP. XXXIX. Formule d'Inventaire qui peut  
tion de l'Inventaire de deux associés des meubles, & immeubles; par-  
ce que leur société n'estant que pour le fait de la marchandise seule-  
ment, & non pas pour leurs meubles, & immeubles qui ne font point  
communs, il n'est point nécessaire d'en faire mention dans l'intitula-  
tion de l'Inventaire, puis qu'ils n'y feront point écrits; & pour satis-  
faire à l'Ordonnance, j'estime que les associés chacun endroit soy, doi-  
vent faire à part & séparément l'Inventaire de leurs meubles & immeu-  
bles, pour rendre compte de leurs actions à leurs créanciers, en cas de  
faillite, afin qu'ils puissent faire voir l'estat de leurs affaires, tant en ge-  
neral qu'en particulier au jour de l'Inventaire qu'ils sont tenus de faire  
six mois après la publication de l'Ordonnance. La raison en est qu'ils  
sont solidairement obligez envers les créanciers qu'ils auront faits,  
pour raison de leur société, ainsi leurs meubles, & immeubles y sont  
solidairement obligez suivant l'Article sixième du Titre quatrième de  
ladite Ordonnance duquel il sera parlé en son lieu.

Après l'intitulation l'on commencera l'Inventaire de la manière  
suivante.

*Brocards & toiles d'or & d'argent de toutes sortes.*

|                |                             |               |                  |             |
|----------------|-----------------------------|---------------|------------------|-------------|
| N <sup>o</sup> |                             |               |                  |             |
| 1              | Brocard, or & argent,       | aun. 19.10.   | } aun. 35. 4     |             |
| 2              | dit,                        | aun. 15.15.   |                  |             |
|                |                             |               |                  | L 1057. 10. |
| 3              | dit d'argent,               | aun. 20.      | } à 25.1.        | L 500.      |
| 4              | Toile d'argent blanche,     | aun. 15.10.   |                  |             |
| 5              | dit argent & bleu.          | aun. 12.13.4  | } aun. 38.1.6ix. |             |
|                |                             |               |                  |             |
| 6              | Moyre or & vert,            | aun. 14. 10.  | } aun. 27. 4     |             |
| 7              | dit or & noir,              | aun. 13. 5.   |                  |             |
|                |                             |               |                  | L 277. 10.  |
| 8              | Velours violet à fond d'or, | aun. 28.      | } aun. 36. 1     |             |
| 9              | dit à fond bleu,            | aun. 15.13.4. |                  |             |
|                |                             |               |                  |             |
|                |                             |               |                  | L 631. 15.  |
|                |                             |               |                  | L 3683. 15. |

*Velours plains noirs, & couleurs de toutes sortes.*

|    |                           |             |              |             |
|----|---------------------------|-------------|--------------|-------------|
| 10 | Velours noir trois poils, | aun. 19.10. | } aun. 33. 7 |             |
| 11 | dit,                      | aun. 13.15. |              |             |
|    |                           |             |              | L 631. 15.  |
|    |                           |             |              | L 3683. 15. |

Photo 1. The first page of Inventory

Further we see the part “Active debts, such as good, doubtful, hopeless, the ones that are owned to me by the listed above”. First, I have good debts name by name for the total sum in liras of 5721.3.6, doubtful ones for the total sum of 1275 liras, and at the end, the hopeless debts for the total sum of 2410.10 liras. The total sum of all the debts is not calculated.

The very last index is “Money in Cash”. After the line with the name of the index goes the line of “L 540. 10 f., which is the money in cash, L 540.10”. After the last index is underlined, the index of total sum “Total value of goods, active debts, and the money in cash” of 35 434.2.1. liras is written under the line.

As we see, professional debts in the inventory are registered in the following way: goods, debtors’ debts, money. In contradistinction to the proclaimed by L. Pacioli placing of assets in diminishing probability of losing the assets manner, there is present the consolidation of the increasing liquidity of the assets manner which was for the first time described by A. di Pietro.

The inventory is finished by the part called “The passive debts, which I owe to the listed below”. This part includes the following points [1, p. 346]:

- Money for deposit;
- By promissory notes;
- Wholesale traders, and also the workers by the book of purchases;
- To my commissioners, and house servants.

After the underlining of the final part of the article, “Total sum of the passive debts” is written in 10022,1 liras.

In the commentaries to the Code Savary considered the inventory as the basis of drawing the balance. The balance is understood as the constituent of the inventory register, as the completion stage, when the result of the inventory is presented in the form of a bookkeeping report and is called “Balance de present inventaire”. In Chapter 38 the aims of the balance are described. The balance reflects, “first of all, what the entrepreneur has gained during the year (through the changes of pure assets), secondly, whether the entrepreneur has been robbed by his workers or servants or not”. In F. Oberbrickman’s opinion “Savary claims that the reports are drawn up to reveal the profit and losses, and also possible property losses in case of embezzlement. Besides, the bookkeeping reports are used to calculate the value of the property, and to inform about the economic state” [12, p. 19].

Then the balance of the financial result (the effectiveness of capital investment) is drawn up on the basis of the inventory. The financial result ( $\pm FR$ ) is calculated by the formula:

$$\pm FR = (A_1^{Prof} - L_1) - Eq_0 \quad (1)$$

where:

$A_1^{Prof}$  professional property (goods stock), at the cost price (in Savary's example their value in liras was 35 434.2.1);

$L_1$  promissory notes ("Total sum of passive debts", equals 10022.1);

$Eq_0$  the fixed capital in accordance with the Regulations of our company for a such and such day (20000 liras).

Given formula (1) shows that Savary initially calculates the pure assets at the end of the reporting period ( $L_1$ ), and then compares pure assets at the end and the beginning of the period.

Here is ( $A_1^{Prof}$ ) is nothing new science the times of Alberty's inventory liquidation balances.

It is well known, that *the proprietor's interest is in gaining profit*. In this case the proprietor does not protect his money from inflation by keeping it in a deposit at a low risk, but invests the capital into business at a high risk. The enterprise's aim is to preserve and multiply the capital invested by a proprietor. The concept of preserving and multiplying the capital can be expressed in the following formula:

$$Eq_1 \geq Eq_0 \quad (2)$$

where:

$Eq_0$  — Personal capital (Equity) at the beginning of the period;

$Eq_1$  — Personal capital (Equity) at the end of the period.

Then, in order to calculate the fiscal result of the period ( $\pm FR$ ) it is necessary to compare net asset cost at the end of the period ( $Eq_1$ ) with the similar index at the beginning of the period ( $Eq_0$ ):

$$\pm FR = Eq_1 - Eq_0 = \pm \Delta Eq \quad (3)$$

However, the index of net asset cost change ( $\pm \Delta Eq$ ) does not characterize the fiscal result, because there is a need for correction for the quantity of additional investment ( $In$ ) and withdrawal ( $Ex$ ) done by a proprietor. In this case, the fiscal result ( $\pm FR$ ) is calculated with the help of the formula:

$$\pm FR = \pm \Delta Eq - In + Ex. \quad (4)$$

In J. Savary's times a great number of proprietors holy followed the Ancient Rome restored law and did not allow the property withdrawal (even if that brought some profit) till the end of the fiscal period, which allowed to calculate the fiscal result without taking into account the influence of subjective factors (withdrawal and investment of the property owners):

$$\pm FR = (A_1 - L_1) - (A_0 - L_0) \quad (5)$$

$$\pm FR = (A_1 - L_1) - Eq_0$$

i.e. formula (1).

It should be noted that there has been nothing new since the time of inventory liquidation balances drawn by Alberty Company. However Savary, in his work, was the first to look upon the problems of capitalization, when the financial result is calculated as growth or “eating through” capital.

The balance of bringing out the financial result conveys the interests of proprietors or management. The aim of drawing up such balance is by means of financial result (profit or loss) to see the effectiveness of capital deposits and to analyze the quality of management. Thus, this balance should include only the property involved in making up the financial result, i.e. professional propriety. Here Savary works out one of the key principles of requirements dynamic accounting which is solitary enterprise (solitary property). A de Pietro, as it is known, was the first who paid his attention to this principal. According Y. Socolov “obviously, he was the first who separated the notions of a proprietor and an enterprise apart” [2, p.73].

Since drawing up the balance of financial result (effectiveness of capital deposits) there is no necessity to study the consequences of management process which lead to actual enterprise liquidation and selling off its property to cover obligations for creditors. As far as the analysis of the effectiveness in using this property comes forward there is no need to assess the property according to prices of potential or real sale. It is the main reason of Savary’s suggestion to make the inventory balance of the property in historical assessment of buying or creating it.

J. Savary explains the algorithm of drawing up the balance of financial result in Chapter 38: “about the order which traders have to follow for making the Record in conformity with the last ordinance” [1, p. 327].

Savary writes, “In order for a Merchant keeping an inventory to know if he has lost or made money since the day he started his business, or since his last inventory, ...he must draw up the balance,. It presupposes opening the list which would contain the ultimate articles. The phrase “The Present Inventory Balance” should be in the middle of the list.

“... On the debit side, he must show debtor (*doit*) for the total value of his merchandise, active debts owed to me ... cash on hand ...and creditor (*avoir*) for the passive debts I owe”...[1, p. 327].

“Then note, and also underline the sum. These three added sums would be equal to the sum which includes the goods, money in cash and active depths which were written as debit. Thus, the Inventory balance would be drawn up and help a trader to see at once the real cost of all goods in his shop, money in cash, active depths, his depth, his own capital and profit or loss which he made during the period between two Inventory balances.

No one of the researchers (we haven't seen any other variant of the description) points out that Savary draws up two balances (including both financial result and fictitious liquidation) in one table — the first one across and the second one is down.

It should be noted that Savary presents his inventory balance in the form of bookkeeping account. The left side of the balance he calls “Debit” of the account (*doit*), and the right side — “Credit” of the account (*avoir*). The balancing value is the cost of goods, active debts, which are owed to me and also money, which are in cash, (the professional property) —  $A_1^{Pr\ of}$  — in liras 35434.2.1, reflected in the table of balance from Inventory Record p. 345 in the commentary. The total cost of goods stock assessed at cost price. The sum of obligations is also taken from the inventory record (its last page — p. 346 of the commentary) — 10022.1. The amount of personnel capital (20000 liras) in Savary's example is should be written from the balance to the set of rules. Then the financial result is calculated according to the formula — profit equals to 5411.1.1.

Photo 2 shows “The Balance of Inventory List”, which in Savary's book is on pp. 348—349 with the final list of inventory balance p. 345 including the final cost of professional propriety and p.346 including obligations”. Table 1 shows the English translation of the balance.

Special attention should be paid to the fact that Savary's example describes the Balance drawing up according to the Code during the first six months after the Code takes effect. If to use the value of the fixed capital in the further practice, then we will always get the financial result from the beginning of the business activity.

The usage of the fixed “sorgo” (as in the example of Alberty Company) is eliminated, because the laws of the Roman law (confirmed by the Reception) did not allow the companies in business to consume the revenue before the liquidation of the company and the paying off of all debts. Probably, in the future periods to reveal the periodical financial result the entrepreneur had to add the accumulated since the beginning of the business activity revenue (expenses) to the amount of the fixed capital, that is to make an inventory of the investing and reinvesting capital. But, to tell the truth, there are no commentaries about it in Chapter 38.

***The balance of fictitious liquidation is not the consequence of liquidation but the ground for it.*** As it has been mentioned above, when there is not enough property to cover the promissory notes or when there are no property remainders after paying off the debts, the bankruptcy procedure begins, which leads to the liquidation balance sheet.

Creditors' interests appoint the aim of drawing up such balance: the control over the enterprise's ability to cover the promissory notes by actual property. The creditors' claims extended both on the professional and personal property of enterprise's owner. Thus, the competitive mass of professional and personal property was taken into account in such balance.

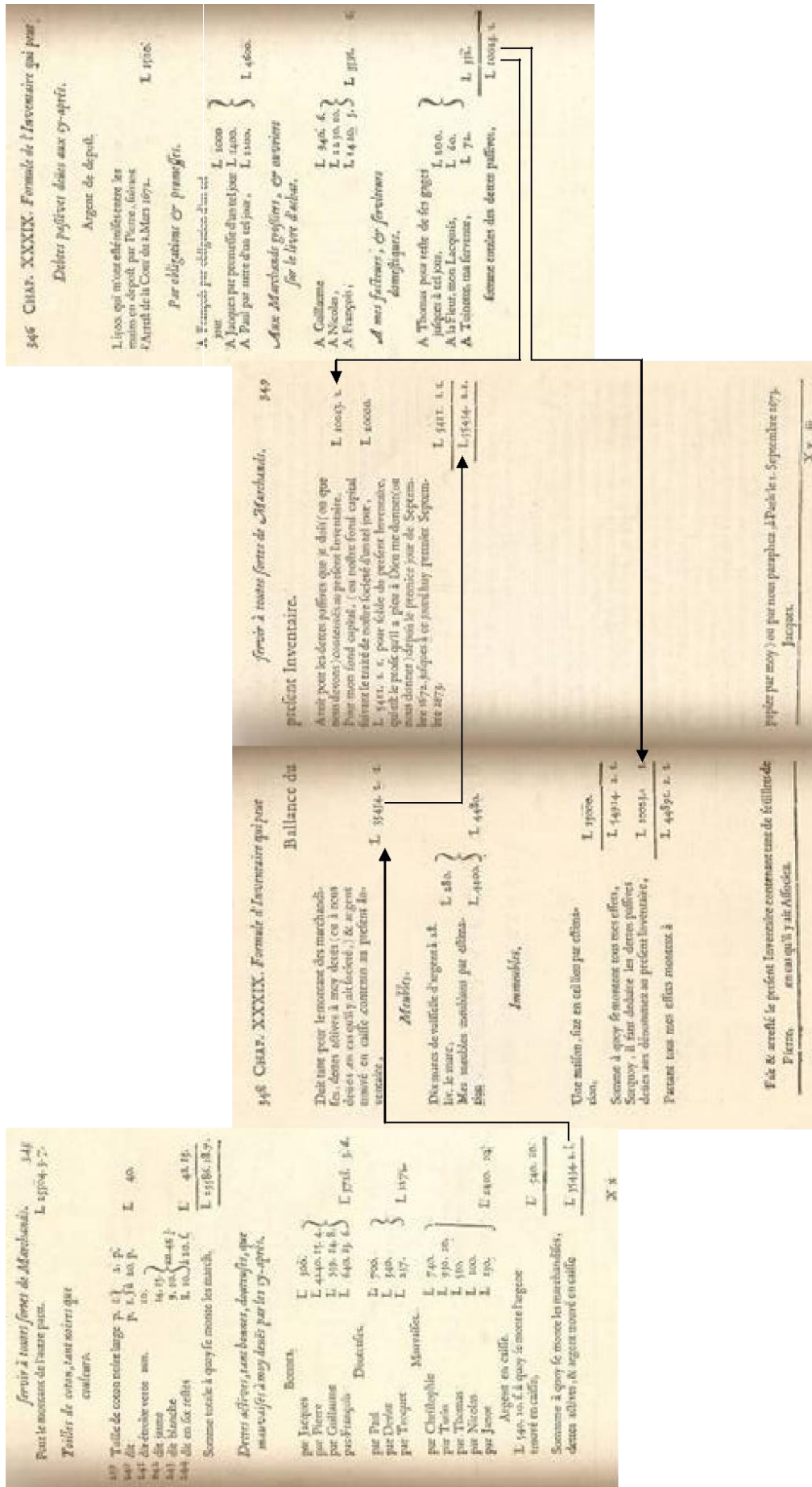


Photo 2. The drawing of the balances by Savary (of financial result and fictitious liquidation)



To draw up the balance of fictitious liquidation, Savary offers to add from the common inventory (for the personal trader) and additional personal inventory (members of the proprietorship) to the balance of personal movable and immovable property. Savary writes in the Commentaries: “After the balance is drawn up to settle the requirements of Ordonnance, he will place all the furniture from the interior, Jewells, silver plates, if there are some, on one side, and then immovable property, and will write the value of everything in line to correlate the sums together, and to see up to what sum all his property will rise” [1, p. 327].

“Ten ounce of silver plates at 28 liras per ounce” are related to the movable property and the furniture (in the example, 4480 liras), and Savary includes “House located in such and such place” (15000 liras) into the immovable property. The sum “up to what all his property will rise” in the example equals 54914.2.1 liras.

Especially important to note, that Savary shows the personal property in “value”, because the creditors should know how much they will get from the sale of the property in case of the debtor's failure.

During fictitious liquidation there is no other property valuation but a possible sale price, which is compared with market price, but which could not be objective. When basing possible sale price in “Le parfait négociant” [1] Savary J. used “the principle of the least price” (but it always was productively used in practice). If the sale price on the reporting date is lower than the initial bargain expenses due to some changes in fashion or for other reasons, than when estimating such goods the market prices are used. And vice versa when the current price is higher on the reporting date of fictitious inventory, the goods should be estimated at the cost price.

The fictitious liquidation balance sheet was based on the calculation of the enterprise’s property net cost ( $Eq_1^{Total}$ ) as the difference between the enterprise’s property, which was estimated at a possible sale price

( $A_1^{Prof} + A_1^{Pers}$ ) and the enterprise’s promissory notes ( $L_1$ ):

$$(A_1^{Prof} + A_1^{Pers}) - L_1 = Eq_1^{Total} \quad (6)$$

The Commentaries read, “... above we should write the total sum of the passive debt, the ones he should subtract; and everything, what is left after the subtraction is done, is what he really owns of property” [ibidem]. Thus, in the concluded part of the fictitious liquidation balance one calculates “the sum which all my property worth” (54914.2.1 liras) and out of which “we subtract the passive debts listed in this very Inventory” (10022.1 liras). “Changing from it all my property equals” 44891.1.1 liras.

The example of the fictitious liquidation balance, cited by Savary [1, p. 348], proves that the company is strong. And the company won’t be a bankrupt for the date of inventory, because after all the debts are paid off the proprietorship may use the property, which is available for producing activity for the stated sum.



Further in the Report, and we can state it for sure, that Savary's balances were exactly the bookkeeping reports, the author introduces the demand for the obligatory conformation of the report with the personal signature of the compiler: "... and if there is no companion, one has to write *The end of the first inventory, which contains of such-and-such full pieces of paper which I personally initialed, which I checked well and thoroughly and signed in the certain place, on the certain date and year, and only then sign it* after the balance of movable and immovable property ... *"If there are two trade-companions, we should write, "We, signed below, such and such companions, confirm that we have drawn this inventory together, which contains of all full pages, which we personally initialed, which we checked well and thoroughly and signed in the certain place, on the certain date and year, and only then sign it"* [1, p. 327—328].

Savary finishes the order, "This is that order which the traders should draw up their inventories in, .... So all the types of traders, which trade with all the type of goods, could be able to draw the inventory themselves to correspond to the Eighth Article of the Ordonnance, without being afraid that they have never done so before" [1, p. 328].

**The liquidation balance sheet.** When there is not enough property to cover the promissory notes the proprietorship or individual traders consider to be insolvent to manage the business and the bankruptcy procedure is applied to him.

After the creditors' primary real actions are settled *remained owners' actions* are possible. The estate owners' claims can take place if the actual sale of the property is done at the higher than planned sale price (possible sale price in static balance of fictitious liquidation). In such situation the balance of actual liquidation reflects the remained owner's interests and is drawn by the formula (7), where all the data is reflected according to the bookkeeping in the real sale price and the real paying-off sums:

$$(A_{Real}^{Prof} + A_{Real}^{Pers}) - L_{Real} = Eq_{Real}^{Total} \quad (6)$$

In the general view Savary's balances can be systemized as in table 2.

### 3. DISPUTABLE REGULATIONS OF THE COMMENTARY

The researchers have very controversial points of view towards J. Savary's contribution. Schalenbach E. was the first to extract from the Ordonnance alternative tasks of the balance (either precise reflection of property cost or/and calculation of profit) and came to the conclusion that before the Ordonnance was published "...the calculation of fiscal result had been more important" [12, p. 21—22].

Schneider D., a modern researcher, is very close to Schalenbach J. in his understanding of the problem. He believes that the profit had no sole value up to XIX century and excludes mentioning of the profit distribution before the closure of enterprise in J. Savary's work.

On the other hand, J. Richard criticized D. Schneider's opinion at the European Association of Accountants Congress (Copenhagen, 2002) [4]. Having mentioned "Le partait

négociant” in his speech, J. Richard points out that Savary J. was the first “to let investors to distribute the profit” if they do not run the risk of bankruptcy. J. Richard develops Fremari’s idea that Savary J. reported against Straccha in the commentaries to the Ordonnance. As far as the beginning of XVI century Straccha had been backing the idea of Applying Rome Law in accounting: *the property and profit can be distribute only after the comradeship’s (joint-stock company) term of validity is over and all the promissory notes are paid off.*

Table 2: The Interpretation of J. Savary’s Theory of Balance Diversity

| Appellation           | Effectiveness of Capital Investment      | Fictitious liquidation  | Finalizing liquidation   |
|-----------------------|--|---|--|
| Interests             | Proprietors and management               | Creditors   | Remained proprietors’ interest   |
| Drawing up Aims       | Calculation of fiscal result of activity | Estimation of property state during “fictitious” liquidation (checking the ability to cover promissory notes) | To reveal the fiscal result in case of actual determination of business activity |
| Property              | Professional                             | Professional and personal   | Professional and personal  |
| Information Source    | Physical Inventory                       | Physical Inventory  | Accounting data of the result of enterprise liquidation                          |
| Valuation of Property | At cost price                            | At the cost of possible sale  | At the cost of actual sale of property   |
| Calculation Formula   | $(A_1^{Pr of} - L_1) - Eq_0 = \pm FR$    | $(A_1^{Pr of} + A_1^{Pers}) - L_1 = Eq_1^{Total}$   | $(A_{Re}^{Prof_{al}} + A_{Re}^{Pers_{al}}) - L_{Real} = Eq_{Re}^{Total_{al}}$    |

Let's refer to “Le partait négociant”. In Chapter 40 “About the partnerships with the collective names of several people, sleeping partnership, anonymous, and also about some formalities which should be followed for them to be good and legal” on pages 368 – 369 Savary states nine regulations “... concerning the means and considerations which on has to have to be successful” [1, p. 368].

Regulation six deals with “the sum which those who run business supposes to take annually for their food and maintenance, and will they take it out of the revenue, which is his in the proprietorship, or not” [1, p. 369].

In this regulation Richard sees the way out for early consumption of the revenue. In our opinion, it really does not go from the text of this commentary. The regulation of “fixed (limited) advance of money received” and “the postponement of their paying off”. One partner invested all his property into the business, another one (sleeping partner or the investor, as a rule, a man of “distinguished parentage, and also nobleman and people in cloak” [1, p. 367] — free money. The latter will not participate in the partnership’s business, but will wait for his interest. Accordingly, there is a question: how the main participant of the business should find

money for food? Savary finds a witty compromise: to give a long-term advance of money, which should be taken into account when the profit is being distributed. With such approach the summed value of the property does not diminish. The given money to the partner are to be turned into the debtor's debt (active debt), which will not reflect the financial result.

Consequently, Savary J., who developed juridical basis on behave of King Ludwig XIV, gave no grounds for consuming part of profit upon reporting period. Juridical this norm would be put into force much later, at the end of XVIII in Prussian Land Code (1794).

Some of the writers mistakenly claim that Savary's model of bookkeeping is of dynamic character. Just the same they say that the Florence model of Datini's company after 1399 is the dynamic bookkeeping. But at the same time the attention is drawn to the financial period, the stock-taking at cost price, the ideal system of drawing up the financial result, the adding of amortization and forming of reserve (but the last points are disputable). Enumerated positions characterize dynamic philosophy, which, undoubtedly, had been formed in the depths of the static accounting, and Savary was ideologist of both of them.

The dynamic bookkeeping should support the owner's interests in the part of financial result distribution and spending some of it on rewarding purposes. This could only be done in case of the proclamation of the solitary property and when the owner accepts all responsibilities for his business, as a rule, by risking losing his entrance fee into the registered capital. Such could not be done in Savary's times, especially in the XIV-XV centuries. The exception makes joint-stock companies, but their number was limited and they had been set up and functioned according to the special regulations.

#### 4. CONCLUSION

Static accounting had been forming over XIII to XIX century. In XIX century the static accounting practice gained its own theory. Among the scholars who studied static accounting we should point out Simon H.V., Nicklisch F., Le Kutre V. and others.

In XVII century the formation of static and dynamic bookkeeping is associated with the name of Savary J., a famous French researcher acknowledged both by the representatives of static and dynamic form of bookkeeping as one of the most meaningful figures among outstanding creators of bookkeeping, whose contributions are often compared with Luca Pacioli's contributions by a Frenchman Ober R. and other famous researchers. Before Ober R. all the researchers acknowledged the appearance of double-entry bookkeeping as a breaking point in the history of bookkeeping and stressed the importance of Luca Pacioli's work. Ober R., nowadays, when pointing out the bookkeeping periods [2, p. 15], proclaimed Savary J. to be central figure who played crucial role in bookkeeping studies. Before him all bookkeeping carried just information characteristics, it made easier for a proprietor to keep business, it helped him "in his daily routine troubles when running for fame and money". It was Ober R. who pointed out those three hundred years of bookkeeping history is a history of juridical school; he related it with J. Savary's works which formed juridical doctrine of bookkeeping.

In 1675 Savary J. published “Le partait negociant” where he reflected the principles of balance diversity and formulated the criteria of property accounting *at the possible sale price during fictitious liquidation and at historical cost (cost price) to calculate the fiscal result*. Savary J. grounded “the principle of a least price”.

Here it can be noted that at Pacioli’s times ( when the bookkeeping was kept within the family — individual peasant holding) the bookkeeping informational system included the means of productive activity and personal property of the production owner (the creditor’s claims extended to the personal property) J. Savary showed the difference between the inventory balance, which included only the data about the property which was invested by the owner into the company, and competitive balance, which included the information about the personal property of the owner. By giving the preference to the inventory balance, J. Savary *foretold* the principals of independent company (isolated property).

Savary is to be thought as the first manager, who took managing decisions on the basis of bookkeeping reports — balance. For these reasons he was the first to see the expediency of economic analysis balance.

Savary J. stated the difference between *inventory balances*, which included information about property which the proprietors invested into business, and *competitive balance* where the personal property was also included. Savary J. showed the principle of independent enterprise (solitary estate) by preferring the inventory balance.

Savary J. stressed the importance of inventory (when guaranteeing the safety of owners’ property and their information supply), made the bookkeeping reports legal, made obligatory to draw it up. J. Savary’s works consist of elements of dynamic accounting, which prime aim is *to calculate fiscal result*.

It is mistakenly assumed that Savary’s model of bookkeeping is of dynamic character. The dynamic bookkeeping should support the owner’s interests in the part of financial result distribution and spending some of it on rewarding purposes. This could only be done in case of the proclamation of the solitary property and when the owner accepts all responsibilities for his business, as a rule, by risking losing his entrance fee into the registered capital

Today J. Savary’s works rouse great interest in Russia. We performed an attempt to translate J. Savary’s work “Le partait négociant” into Russian. And such interest is, of course, not accidental.

The development of world bookkeeping over 150 – 160 years could be described in three stages:

- from 1850 till the end of XIX century — static accounting aiming at the creditors’ interests;
- during XX century — dynamic accounting expressing owners’ interests;
- at the beginning of XXI century — actuarial accounting which is directed at the potential and actual investors.

Static accounting, which expresses creditors' interests, can be identified as the property sufficiency to cover promissory notes; property accounting is done at the sale price. In this connection, assets meant the property which the debts could be paid off with. As the owned property had such capacity only, there was no doubt *in estimating assets as owned property*. Correspondingly, in the character of cost price valuation of such property possible price was used at the liquidation of an enterprise. The best matching theory to it was the one about the least estimation between the current market price and cost price which Savary J. presented in 1675. Only cash method can be used when drawing up such balance.

The dynamic accounting is directed at actual owners with the aim to define the effectiveness of capital investment (calculation of fiscal result), property accounting is done at the historical cost, the method of income adding (juridical treatment — with the transition of ownership right to the object of a deal) and losses. The main principle of dynamic accounting is the continuation of business activity and the objects are not the subject of sale as when during the liquidation. That is why there is no need to evaluate them at the possible sale price.

Actuarial accounting is directed at the potential or actual investors' interests. In such manner of accounting it is necessary to form an image of market attractiveness of enterprise, and so the necessity to calculate market cost of enterprise as a single unit to be presented on the stock exchange. It should be noted that actuarial accounting is not the returning to the static accounting and not the valuation of some objects to cover promissory notes. It is the calculation of property cost in case of its sale or purchasing as a single unit, means of attracting new proprietors. The main valuation is a fair market value. Fair market value (FMV) is the price that property would be sold at on the open market. It is the price that would be agreed on between a willing buyer and a willing seller, with neither being required to act, and both having reasonable knowledge of the relevant facts. If you put a restriction on the use of property you donate, the FMV must reflect that restriction. The method of income adding (the economic treatment — the income is estimated at the moment when the object of a deal leaves) is applied. It is especially important for Russia, which during a long period of planned economy took no effort in the field of static accounting, and right now it is on the way from dynamic to actuarial accounting.

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