ACCOUNTING PRACTICES OF THE BRAZILIAN TRADING COMPANY: The case of the Boris Freres Ltd. Co. 1882-1896

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Agenda

- Research Question
- Background
- Methodology
- Results
- Final Discussions
Research Question

- This study documents the main accounting practices adopted in Brazil by a trading company controlled by a French family during the transition between the Empire and the Republic.

- Thinking about three important aspects:
  - Which accounting method was applied by trading companies?
  - Which accounting practices were used 100 years ago in Brazil?
  - What were the law’s influences on accounting?

Background
Main Brazilian Rules
- Brazilian Constitution (First: 1934 – Second: 1891)
- Commercial Code 1850
- Tax Legislation

Accounting Profession
- Few accountants (“bookeepers”)
- French and Portuguese influence on teaching accounting

Prior Studies
- Studies that analyse company accounting records are very common (different periods, countries and industries analysed)

Objectives:
- **a. Analyse** the impact of social, economic and organizational development on Accounting (MCLEAN, 1995);
- **b. Reconstructing** economic history from the accounting records observed (YAMEY, 2005);
- **c. Analyse** the relationship between the development of accounting with specific issues:
  - (1) Corporate strategy and organizational success (WATTERS e LEMMARCHAND, 2010);
  - (2) Technological changes and competitive advantages (BOYCE, 1992);
  - (3) Corporate governance (RODRIGUES, RICARDINO e MARTINS, 2009);
  - (4) Firm contracts (MCLEAN, 1995); and
  - (5) Bankruptcy (LANBARDIN, 2011);
- **d. Identify** accounting practices in a given period of time.
Methodology

Place and Research Team

- Public Archive (Auxiliary Building)
- Research Team
  Adolfo, Amaury, Cosenza e Flavia
Case Study

- Case Study Selection
  - Special Case
    - very strong economic influence on local activities
  - Accounting books in good condition
  - Availability of books
    - The books were donated to the public archive of the State of Ceará

- Boris e Frères Commercial Company
  - French family Control
  - Started its activities in Brazil around 1876
  - Subsidiary located in Fortaleza (Ceará State) (3 partners)
  - With a branch in Natal (RN State) (after 1920)
  - Activity: Import and Export products (Animal and vegetable)
  - There is a Parent Company located in France (2 partners)

Ownership structure of companies belonging to the Boris family in 1889 (Shares in Boris Frères & Ltd. Co. Brasil).

BORIS FAMILY (brothers)

<table>
<thead>
<tr>
<th>Theodore Boris</th>
<th>Alphonse Boris</th>
<th>Izaie Boris</th>
<th>Adrien Boris</th>
<th>Achielles Boris</th>
</tr>
</thead>
<tbody>
<tr>
<td>20.6%</td>
<td>20.6%</td>
<td>19.5%</td>
<td>20.3%</td>
<td>19.0%</td>
</tr>
</tbody>
</table>

- Boris Frères & Ltd. Co. (Brazil)
  - Subsidiary
  - Import and Export of Merchandise

- Boris Frères & Co. (France)
  - Parent Company
Accounting Books

- Day Book and Ledger - 1886 - 1896
- Wide range of books are available (more than 100 books)
- Accounting books very organized and in good condition

Research Process

- Detailed content analysis of the Accounting records
- Interpretation of accounting facts according to the period context
Results

Accounting records of Boris Frere Company

- Main books: Day Book & General Ledger
- Books with approximately 1,000 pages, weighing approximately 20 kilograms, making it difficult to handle
- Manual bookkeeping transactions
System of bookkeeping

- **Accounting Records**
  - Few standardized accounting records
  - Were not given the dates of the transactions in the Day Book and General ledger
  - Accounting records were recorded monthly.

- **Accounting aspects:**
  - Very detailed in the period 1876-1896
  - In subsequent periods are more abbreviated and standardized, simplifying the records of transactions

- **Chart of Accounts**
  - Lack of a formal plan accounts
  - Lack of numbers to identify accounts
  - Use the full name of customers and suppliers as the title of the accounts

Accounting Records

- **Accounting Records**
  - Standardization of accounting records
  - 12 accounting records with monthly transactions
  - 3 closing entries of income accounts

- **Form of accounting records**
  - Simple journal entries were less usual.
  - The compound journal entries simplified the process of manually recording accounting transactions.

- **Indexation of accounting records**
  - Efficient indexing system of records between the cash book, Day book and ledger
  - The updating of the accounting records once a month simplified the accounting process.
Accounting Process

- Closing of the accounting period:
  - Closing of the financial statements in March
    - With the title "Balance Sheet"
  - The companies did not elaborate the Statement of Income
    - Use the transitory account "Profit and Loss" for registration of changes in equity, and in contrast with the closed capital account at the end of each period
  - There was not the account of cost of goods sold, with gains and losses determined by the net value
  - Recognition of expenses of the partners in the company accounts (capital account)
  - Recognition of 6% interest per year on the capital account
  - Lack of depreciation of fixed assets,
    - Recognition of the impairment in certain circumstances

Balance Sheet

- General Aspects
  - The accounting did not use groups and subgroups, except for customers and suppliers accounts
  - The accounts were presented as debit (assets) or credit (liability) according to value
  - Lack of contra asset accounting
  - Changes in the structure of the accounts over time

- Asset
  - Accounts not ordered
  - Use of accounts for each customer
  - The carrying amounts of customers were subtotaled by surname.
  - Customers were segregated into two groups: a) debtors, and b) doubtful debts.

- Liabilities
  - The accounts were presented in order of decreasing exigibility
  - The capital was represented by accounts with the name of each partner
Systematic accounting entries not changed in recent years

Automation of bookkeeping process allowed the records to be performed daily and with greater detail.

Introduced new concepts:
- using groups of accounts and numbers for accounts
- systematic income determination
- contra asset accounts
- depreciation of fixed assets, provision for losses, reserves, ....
- segregation of accounting and business partners

Descontinuity of some accounting practices
(a) Interest on net equity, and (b) foreign exchange capital records

Increasing complexity of the business environment requires a more sophisticated and flexible recording system.
Thank You!

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