

The National Characteristics of
Accounting in Spain
A History

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The history of accounting in Spain has created a foundation for the modern day system. Since the middle of the 16th century certain accounting rules have existed. These rules have changed and evolved, influenced greatly by the current economic, social and political situations. For this reason it is necessary to mention economic and politic events that have occurred and left their mark on the development of the accounting system. History can include any period from the beginning of time, to yesterday, therefore for the majority this report will concentrate mainly on the accounting history from the first recorded accounts to the 1970s. The legislation that occurred after then is a result of Spain's incorporation into the European Union, which can be regarded as modern history, so shall not be reported in as much detail.

In 1549 and 1552 “Pragmáticus” was passed, which is the oldest law on accounts in Europe. These laws required every person “engaged in business in the Kingdoms of Castille: 1) To keep two accounting books, the diary and the ledger, 2) To write them in the Castilian language, 3) To follow the double-entry book-keeping system. Therefore, Spain was the first country to legislate on the use of this system of book-keeping for traders, businessmen and bankers.” (1)

There are several changes of importance to note that occurred during the 18th century. Firstly the Spanish economy and industrial situation began to change. Spain was still not very advanced in any area by the end of the 18th century and most of the population worked in the countryside, however there was a boom in the textiles industry and by the end of the century the first modern industrial methods could be seen in Catalonia.

King Felipe V ruled the country from 1700 to 1746, he was the grandson of Louis XIV of France and consequently here began a succession of French ideas imported into Spain. Felipe V financed industrial development, based on a French system, there were three main aims when establishing these companies, “1) military, 2) taxation, 3) commercial.” (1) These were not necessarily what was best for the

economy. King Felipe also approved the Ordinances of Bilbao in 1737 (Ordenanzas de Bilbao), these referred to the accounting books and mercantile companies. The Ordinances of Bilbao have been referred to (by Spanish guy) as the first Commercial Code (Código de Comercio.) The Ordinances laid out a set of rules to control the proceedings of bankruptcy and was the first complete set of these rules. “It divided bankruptcy into three parts, 1) those that are in arrears, 2) unfortunate/mishap bankruptcy and 3) fraudulent bankruptcy.”(6a) These procedures specified the following arrangements, “regulation of a universal verdict in a thorough form: regulation of communication (of the bankrupt) confiscation of keys and books, insurance from the bankrupt, presentation of balance, occupation of property and nomination of trustee, to make inventory.”(6b)

In addition throughout the century the transition from unlimited companies to limited companies began. In a very similar fashion as today, companies that needed extra capital introduced partners in exchange for shares. Shareholders owned the company and selected managers to run it. This meant that it was necessary for financial statements and balance sheets to be drawn up in order for the board of shareholders to be aware of what their money was doing.

During the 19th century there was a certain amount of political change. As I have already shown the laws and codes which were passed were greatly influenced by the objectives of the leader at that time. The country experienced an amount of economic disaster throughout this century. Fernando VII ruled from 1814 to 1833, he realised that the use of the 1737 Ordinances of Bilbao were insufficient for the country. He therefore passed the official first codified accounting law, The Commercial Code of 1829.

The Commercial Code of 1829 was based on the Ordinances of Bilbao and on the 1807 French Commercial Code. There are also requirements from the 1549 and 1552 Laws (Pragmáticos). Articles 32, 33, and 34 of the code left no doubt that the double-entry system had to be used and Articles 32 and 57 required all tradesman to keep four accounting books, “1) day book, 2) ledger, 3) inventories and 4) copy-letter book.” (1) Formal requirements were very strict, such as Article 41, which obliged all “1) to follow the chronological order in the entries, 2) not to leave empty spaces, not

to erase, not to introduce notes between the lines, not to take out pages and 4) to be written in the Spanish language.” (1) Article 36 of the code required all companies to “prepare an annual balance sheet.....and also mentioned the general content of this balance : cash, fixed assets, and current assets, rights and debts. The code also allowed all accounting books to be private or secret unless in certain circumstances where they were needed as evidence, such as bankruptcy to prove they had not been negligent.

On the 28th of January 1848 the Law on Share Issuing Companies was issued. Its main objective was to control these companies by means of the balance sheet. The company had to include all transactions made during a year, “the income, and the statement of assets and liabilities.”(1) This is also the first time we see mention of auditing, the accounts had to be checked by the civil governor. The Law of 19th October 1869 gave freedom back to these companies. Interestingly enough this law was passed by a new government less than a year after the overthrow of Queen Isabel II in 1866. A new commercial code was passed in 1885, a large amount of the Articles were the same as the ones in the 1829 code. However it was deemed to be much more efficient. Companies no longer needed to keep their books in the Spanish language. From Article 33 the inventories book was renamed the inventories and balance sheets book.

The 20th century brought some of the most significant changes, which finally led to the modernisation of Spanish accounting. There were a great deal of economical and political changes. It is important to note that Francisco Franco was dictator from 1945-1975. Up until now accounting legislation had been more concerned with taxation and other formal requirements rather than principles and the true value of figures representing an accurate presentation . A tax reform took place at the beginning of the century, on the 27th March 1900, a Law concerning Tax on Utilities was passed and came into force in 1901. This is the first time apart from the 1848-1868 period that accounting records became public. On the 20th September 1919 a Decree was passed requiring “that all registered companies had to file their annual balance within the maximum period of 6 months from 1 January”(1). In 1922 the tax law was revised, this was essentially the same as in previous years but with added

features. Tax was calculated on the company's profit, regulations were provided as to which items were considered income and expenses.

In 1945 the Spanish Institute of Certified Public Accountants (Instituto de Censores Jurados de Cuentas de España – ICJCE) was established, which joined the International Accounting Standards Committee in 1973. 1951 saw the first major legislation on limited companies which involved mainly “formation, operation and liquidations of companies.”(1) This law also made a mention of a shareholder auditor although they did not have to be specially qualified. Shareholders were allowed access to view the “balance sheet, profit and loss accounts, notes to the accounts and the proposal for income distribution”(2). It also gave “some valuation rules based on the historic cost, and established the obligation to depreciate fixed assets (Article 104) . In order to protect the interests of creditors, it gave some rules concerning the distribution of dividends, and concerning the crediting of a legal reserve (Article 106).” (2) The 1951 Law also saw the entry of the first general clause to show some interest in the accounts providing an accurate account. The clause was that of clarity (claridad).

The 1951 legislation on Limited Companies was followed by the 17th July 1953 Law on Private Limited Companies, this Law “limited the amount of capital as well as the number of partners (up to 50)”(1). In 1957 a new tax law for companies was passed which was based on the annual accounting income of the company. This established “gross revenues and expenses for tax purposes”(1) as well as dealing with accounting. 1964 saw a law passed which regularised the balance sheet and preparing them to a specific format. This prevented including false liabilities and made it necessary to include certain previously undeclared assets.

In 1973 the first General Accounting Plan was available (PGC-73), which was a revision of the 1885 Commercial Code, it was also substantially based on the French Plan Comptable Général. This was more concerned with the contents of the accounts with regard of taxation rather than the true situation of the accounts. Before this plan according to Inchausti, B one of the main characteristics of accounting was “the lack of interest in accounting.” (2) The 1973 Plan “included four main accounting

principles: acquisition cost, consistency in the valuation criteria, accruals and going concern.”(2)

From 1973 onwards Spain’s accounting system continued to rapidly improve. Especially after their entry into the European Union, which adapted Spanish accounting to more international standards. The most important event to achieve this was the implementation of the fourth directive or the Nuevo Plan General (the New general Plan), which had three main purposes. “1) to give transparency to the companies’ annual accounts, 2) to achieve comparability of the accounts, and 3) to adapt Spanish accounting practice to international standards.” (4) On the first two points the plan was reasonably successful but in general the fourth directive did not achieve the harmonisation it was hoping for. This is a rather large and controversial topic which is more relevant to how successful European Union harmonisation was than to the history of Spanish accounting. The general clause in the fourth directive required the accounts to show a ‘faithful picture’ (Imagen fiel) however they managed to attach their old general clause of Clarity to this so effectively changing nothing. However it did at least further the accounting level in Spain to a more modern standard.

Even though Spain was an early starter in the accounting system progression, it is clear that until recently Spain has advanced slowly, and only just reached international standards. One of the most overwhelmingly significant characteristics throughout Spanish accounting history has been the general lack of enthusiasm for accounting and the deficiency for wanting to show the figures in the accounts accurately.

References

Books

- 1) European Financial Reporting a history, Peter Walton, 1995.
- 3) International Accounting, Peter Walton, Axel Haller and Bernard Raffournier, 1998.
- 4) European Accounting Guide, David Alexander and Simon Archer, fourth edition, Miller.
- 5) European Financial Reporting Spain, Jose A. Gonzalo and Jose L. Gallizo, 1992. Routledge.
- 6) Cursos de Derechos page 13
 - a) “Los quebrados se dividen en tres clases: Atrasados, quebrados por infortunio y quebrados fraudulentos.” Translated by Natalie Roberson
 - b) “regulación como un juicio universal en forma minuciosa: intervención de la correspondencia, incautación de lleves y libros, aseguramiento de la persona del quebrado, presentación del balance, ocupación de bienes y nombramiento de depositario, formación de inventario.” Translated by Natalie Roberson

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- 2) The European Accounting Review, Volume 2, Number 2, September 1993, pg 379 - 386, The Spanish Accounting framework, Some Comments by Begona Giner Inchausti.

Internet

An extensive search for copies of Spanish legislation in English concerning accounting without success. Including looking at www.iasc.org and many other related sites.