

Pastoral Accounting in Colonial Australia

A Case Study of Unregulated
Accounting

Garry Carnegie



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A CASE STUDY OF
UNREGULATED ACCOUNTING

GARRY CARNEGIE



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TO COLLEEN, LAUREN AND JOEL
FOR THEIR INTEREST, PATIENCE
AND UNDERSTANDING.

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ABSTRACT

Set in colonial Australia, this explanatory, investigative study examines the dimensions of accounting information prepared for pastoral industry engagement in the Western District of Victoria during 1836-1900 and the local, time-specific environmental factors which shaped these dimensions. Based on examinations of surviving business records, the study provides evidence of the structure and usage of pastoral accounting information in an unregulated financial reporting environment. As an interpretive historical study, it attempts to provide explanations of the accounting practices observed.

Prior to this investigation, very little was known of the nature of pastoral accounting information prepared in the pre-Federation era of rapid transformation in the Colony of Victoria. This study features a research sample of 23 sets of surviving business records, representing a range of records available for examination. It acknowledges that there are many key environmental factors which affect accounting. The identification of these factors relies upon the examination of the relevant accounting literature, an elucidation of the pastoral industry and station environments and a review of the backgrounds of the pastoralists whose surviving records are examined.

This study found a broad range of financial and volume records prepared for engagement in the pastoral industry by the entities comprising the research sample. In the absence of accountability relationships, there was an emphasis on the maintenance of personalized ledgers combined with various records of non-financial operating statistics for internal control. There was also a general focus on the use of operating statistics for performance measurement. The nature of information prepared for accountability purposes and for the government had a stronger financial focus. Professional accountants facilitated this increased emphasis on the measurement of financial outputs. Thus, the impact of externalities was central to the development of accounting. There is evidence to suggest that Western District pastoralists did not find reporting systems which focused on the measurement of financial outputs to be effective for the running of day to day station affairs. The emphasis by professional accountants on financial recording and the preparation of periodic financial statements for their view of pastoral

entities appears to have isolated them from the real value-creating processes in pastoralism.

Cultural, educational, legal and political, professional, economic and other factors are tendered as probable environmental influences on the accounting practices observed. The use of culture in this field-based historical research represents an extension of a burgeoning literature on the impact of culture in shaping the accounting environment of a country.

There are five major implications of this study. Firstly, it illustrates the importance for archival researchers in accounting to focus on understanding the structure and usage of accounting information in the organisational and social context in which it was prepared. Secondly, it shows how culture can emerge as a key contextual factor in accounting history studies. Thirdly, it provides some evidence which suggests that a key determinant of the professionalization of accounting in pre-Federation Australia was the expansion and enhancement of the domain of double entry accounting. It also provides insights into the present dominance of the financial accounting function and the emphasis on financial reporting issues by the organized accounting profession in Australia. Finally, it provides evidence of a regard for efficiency of production by pre-Federation Western District pastoralists which predates similar concerns in contemporary manufacturing and the public sector for the evaluation of input/output relationships in both physical and financial terms. Opportunities for further field-based case study research are also proposed.

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Of course, the usual caveat applies: none of these people nor institutions should be held responsible in any way for the deficiencies, interpretations or conclusions of this work, the full responsibility for which rests with its author.

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ABBREVIATIONS

AARF	Australian Accounting Research Foundation
AIIA	The Australian Institute of Incorporated Accountants
AML&F	Australian Mortgage (Mercantile) Land & Finance Company
ASA	The Adelaide Society of Accountants
ASCPA	Australian Society of Certified Practising Accountants
CAA	The Corporation of Accountants of Australia
FIA	The Federal Institute of Accountants
ICAA	The Institute of Chartered Accountants in Australia
IIAV	The Incorporated Institute of Accountants, Victoria
UIG	Urgent Issues Group

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Pastoral Accounting in Colonial Australia

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CHAPTER 1

INTRODUCTION

In Australia, the Victorian pastoral industry developed rapidly from the mid 1830s when European pastoral settlement commenced on fertile lands which Major Thomas Mitchell had described as "Australia Felix".¹ Those seeking grazing land moved into the Port Phillip District (then part of the Colony of New South Wales)² by means of two routes: overland from settled districts in New South Wales and by sea from Van Diemen's Land (known subsequently as Tasmania). Migration from Britain began once news spread of the quality of the land. Known during the squatting era as the Portland Bay District, the Western District of Victoria was the first district settled for pastoral pursuits and is still regarded as a rich pastoral region. According to Kiddle (1961, p.13), the pastoral settlers:

... were soon to regard the Western District as theirs by right of discovery, confirmed by the expenditure of labour and capital they would bring to its development. To them 'Australia Felix' was a British possession in which they could find the riches which would make them happy. They never thought of the land of the cockatoos as belonging to the people who already occupied it, and whose felicity must prove incompatible with their own.

The pastoral pioneers were required to apply a diverse range of skills to survive in a harsh isolated setting. Although there were failures, various pastoralists and their descendants found security and prosperity during the colonial period to 31 December 1900. This pre-Federation period of approximately 65 years was one of rapid pastoral industry development. This development was spurred by the existence of lucrative foreign and domestic markets, the availability of expanses of fertile grazing lands and the employment of workers in an unregulated labour market.³ According to Forth (1982, p.34) "it was perhaps in the Western District more than any other pastoral region of Eastern Australia that the squatters' golden age was most clearly evident". Throughout the pre-Federation period, the pastoral industry was a vital industry in the flourishing Colony of Victoria (Strachan, 1927, pp.7-8; de Serville, 1991, pp.159-188).⁴

A Scenario for Investigation

A study by Bridges (1975) of the historical development of Australian farm recording from 1788 to 1972 was confined to an evaluation of the available literature on the topic. Apart from a fundamentally descriptive study of a single set of surviving business records by Gibson (1979a), very little was known about the structure and usage of pastoral accounting information prepared in the pre-Federation era of rapid transformation in the Colony of Victoria.⁵ To the author's knowledge, there are not any published accounts by other researchers based on examinations of surviving business records of the structure and usage of accounting information prepared for pre-Federation pastoral industry engagement in the Western District of Victoria.⁶ Pre-Federation Western District pastoralism presents an opportunity to examine the nature of accounting information prepared in a unique setting involving the advent and development of a significant industry in a region where all infrastructure facilities had to be established upon lands which were described as "beyond the limits of location".⁷

The advent of an organized Australian accounting profession occurred in the mid 1880s.⁸ The earliest known professional association of accountants established in Victoria is The Incorporated Institute of Accountants, Victoria (IIAV). Formed in Melbourne on 12 April 1886, the association was registered under the *Companies Statute* 1864 on 1 March 1887 with a foundation membership of 45 (Australian Society of Accountants, 1963, p.25). Incorporated on 13 December 1892 under the *Companies Act* 1890, The Australian Institute of Incorporated Accountants (AIIA) was Victoria's second professional accounting body (Carnegie, 1993b).⁹ It was based in the Western District from incorporation to its dissolution on 14 January 1938.¹⁰ The AIIA had a foundation membership of 55 of which 60 per cent resided in the Western District (AIIA, 1892).

According to Bridges (1975, p.14), the "first Australian farm recording system" was devised by Musson and published in 1893 in the *Agricultural Gazette of New South Wales*. Writing specifically for farmers and orchardists, Musson (1893, p.163) sought to prescribe how they could keep accounts to ascertain the "true position" of their affairs and whether the transactions resulted in a profit or loss. Musson (1893, p.162) asserted that "it appears to be nearly the rule amongst farmers to keep no proper set of books from which a balance sheet could be made out, for instance". As Accountant to the Bureau of Agriculture in Western Australia, Buckley (1897) also published a farm recording system. In emphasising farming as a commercial pursuit, Buckley (1897, p.342) also stated "it is quite as necessary that the farmer should keep proper books of accounts as the dry goods merchant, the

storekeeper, the banker, or any other commercial man". In that year, the pastoral company Goldsbrough Mort & Co. Ltd produced a booklet which featured a segment on "Station Book-Keeping, &c." and argued "the necessity for an annual analysis of one's progress and financial position" (Goldsbrough Mort & Co. Ltd, 1897, p.44) while Hombsch (1897, p.453) argued "much haphazard can be avoided by the adoption of simple methods of bookkeeping". Another writer advocated the preparation of an inventory and the financial valuation of "everything in connection with farming, livestock, crops, fencing, building, land, &c., &c." (Anon, 1899, p.175).

The first known Australian book on pastoral accounting was written by Francis Ernest Vigars, a Sydney accountant, and published in 1900.¹¹ Vigars's *Station Book-keeping - A Treatise on Double Entry Book-keeping for Pastoralists and Farmers* was written "for those who make Station Products their chief business" (1900, p.3). However, according to Bridges (1975, p.23), it was written primarily for accountants who predominantly served the rural sector. Musson (1893), Buckley (1897), Goldsbrough Mort & Co. Ltd (1897) and Vigars (1900) all advocated double entry bookkeeping for financial recording.

During the pre-Federation period, financial reporting practices by non-corporate entities were unregulated. Thus, such entities were not exposed to any accounting regulation. This was not so for Victorian public companies which from 1896 were required under the *Companies Act 1896* to issue an audited balance sheet which disclosed a minimum range of information (Gibson, 1971, pp.39-47; 1979b, pp.24-25). While there were not any financial reporting requirements prescribed for non-corporate pastoral entities to govern the preparation and reporting of financial information in the period to Federation, an income tax was imposed in 1895. Goldsbrough Mort & Co. Ltd (1897, p.44) addressed the implications of income tax for station bookkeeping when it stated "nearly everyone has some annual return of his year's work to make in these times, if only for taxation purposes, so bookkeeping becomes a necessity . . .". Vigars (1900, pp.3-4) did not mention the effect of income tax introduced five years earlier,¹² but stated in the introduction to the book that:

. . . it must be obvious to all thinking persons, that, in these days of keen competition, a strict record of all business matters undertaken should be kept, and comparisons made from year to year of the *Receipts and Expenditure* and their sources. By this means a Pastoralist can at any time ascertain his actual financial position, and not be led or misled by supposition of such-and-such being his position (emphasis added, not in original).

The earlier study of non-corporate pre-Federation Victorian pastoral accounting undertaken by Gibson (1979a) involved the examination of the McLeod partnership business records relating to Ensay Station which was located in the Tambo River valley on the south side of the Great Dividing Range in Victoria's North-East region. The surviving financial and volume records examined spanned the period April 1868 to August 1872. For this period, Gibson (1979a) identified 293 individual account titles in the ledger of which 255 related to individual station workers including piece-work contractors. Gibson (1979a, p.9) explained there was not much regard for distinguishing capital and revenue items as all costs appeared to be written off as expenses when incurred. Examples were provided of "assets" acquired but which were charged to expense. In the analysis of volume records, Gibson (1979a) focused on the outputs of contract workers such as shearers who were compensated on the basis of performance made plain in shearing tally records. In examining the surviving historical evidence, Gibson (1979a) appeared to view the structure and usage of financial information in the context of contemporary accounting practice at the time of writing rather than portraying the information as a local, time-specific product shaped by a range of environmental conditions of that bygone era. Any explanation of accounting practice is likely to be incomplete and unreliable if the historical evidence is viewed, even in part, from the perspective of the present.¹³

A concern for understanding the past on its own terms underpins this study. This mode of historical enquiry is usually known as "historicism" (Tosh, 1991, pp.12-15). The fundamental premise of historicism is explained by Tosh (1991, pp.12-13) as recognising that:

... each age is a unique manifestation of the human spirit, with its own culture and values. For one age to understand another, there must be a recognition that the passage of time has profoundly altered both the conditions of life and the mentality of men and women - even perhaps human nature itself - and that an effort of the imagination must be made to relinquish present-day values and to see an earlier age from the inside.¹⁴

Thus, as far as possible, present-day values must be set aside in examining not only historical events but also the mentality of the actors in history. Recreating the past from the inside is a pre-requisite to explaining the past. As accounting is an element of the organisational and social context and as any accounting system is an expression of the society which gave rise to it, the emphasis of this study is on understanding pre-Federation pastoral accounting in the contexts in which it operated. In examining accounting practices within their

organisational and social context, one comes to understand the contingent nature of one's own traditions and practices. Thus, accounting history studies of this genre can help to place accounting's present into context and also broaden perspectives of accounting's potential.

Scope and Purpose of the Research

This study is concerned with the structure and usage of pre-Federation pastoral accounting information prepared for non-corporate pastoral entities in the Western District of Victoria whose surviving accounting records were available for examination. These entities included sole proprietorships, partnerships and trusts. This focus on non-corporate pastoral entities provides the opportunity to study the structure and usage of accounting information in an unregulated financial reporting environment. Because of this emphasis on pastoral accounting practice in an unregulated environment, companies are excluded from this study. As explained, company financial reporting practices in Victoria from 1896 to Federation were not entirely unregulated. It was also impossible to incorporate Victorian companies until 1864 when the first Victorian companies' legislation, the *Companies Statute* 1864, became operative. Non-corporate pastoral entities represented the vast majority of participants in pastoral activities in Victoria from the mid 1830s with most of these entities being operated by specific families. In total, 23 sets of surviving business records of non-corporate pastoral entities are examined in this study.

The purpose of this study is expressed in the following statement of objective:

The express objective of the study is to investigate the nature of accounting information prepared for pastoral industry engagement by non-corporate entities in pre-Federation Western Victoria and to endeavour to explain the accounting practices observed and identify their possible implications for farming and business practices.

Given this research objective, the major general research question posed in this study is:

What were the dimensions of accounting information prepared for pastoral industry engagement in pre-Federation Western Victoria and the local, time-specific environmental factors which shaped these dimensions?

This study acknowledges that there are many important environmental influences which affect accounting. These environmental influences are commonly organized into groups such as educational, legal and political, professional, economic and cultural (Arpan & AlHashim, 1984, p.4; Arpan & Radebaugh, 1985, p.13; Nobes & Parker, 1995, pp.10-11).

Since the late 1970s the impact of culture in shaping the accounting environment of a country has been recognized in the accounting literature. The cross-national cultural studies in accounting conducted from this time generally explain differences in international accounting practices, standard setting arrangements, the workings of accounting institutions, and differences in the meanings attributed to accounting concepts by reference to cultural differences between the countries involved in the investigations. It is a logical development of this literature for accounting historians to examine culture as one of a range of key environmental factors to assist in explaining historical accounting practices in their local, time-specific contexts. As a function of personal interactions, culture appears in three main layers: national, organisational and occupational. An examination of culture should enable more comprehensive explanations to be drawn of particular accounting practices in bygone eras. The cultural perspective adopted in this study is further examined in Chapter 2.

Even if the pre-Federation pastoral accounting practices were witnessed by the writer in their time-specific contexts, it would have been tenuous to endeavour to rank the key environmental factors identified in order of importance. Hence, no attempt is made in this study to rank the key factors identified in any order of significance. Rather, the study identifies a range of environmental factors specific in location and time to the 65 year period in question to shed light on the contingent nature of accounting practice during and since that time.

Period Selection

The period of approximately 65 years accommodated by this study extends from the date of preparation of the earliest surviving pastoral records available for this study, 1836, to the 31 December 1900. On 1 January 1901, Australia became a Federation. According to Greenwood (1955, p.196):

Federation in one sense was an act of faith, symbolized for many by the fortuitous but happy combination of events which produced a new nation at the outset of the new century.

Federation meant that a population of almost four million people embarked to control their destiny by means of a national government.

This involved a shift in focus from Colonial governments only to both a Commonwealth government and State governments. This was an era when national development became an objective and where matters national in character were surrendered to the Commonwealth of Australia by the former Colonies. This date of changed political structures and the identifiable end of the colonial era in Australia provides a pertinent point of closure for this study.

Historical Methodology Employed

As previously mentioned, this study of surviving business records places emphasis on understanding accounting in the contexts within which it operated. Historical studies of this genre focus on depicting accounting not as a technique in itself but as one element of the organisational and social context (Hopwood, 1983, 1985; Napier, 1989). Conceptualising accounting in this way involves interpreting the "archive" on its own terms. Interpretive or interpretational history involves explanations as to why episodes took the forms identified from examinations of the available evidence (Previts, Parker & Coffman, 1990a, p.2). An understanding of accounting in its local, time-specific contexts is dependent upon an exploration of the underlying environmental influences in order to provide probable explanations for the structure and usage of the accounting information examined. This interpretive historical study set in the "archive" is concerned with presenting a range of environmental influences which appear to have impacted upon the structure and usage of pre-Federation pastoral accounting information.

This study adopts the field-based case study research method and also makes use of oral sources as explained in Chapter 4. Chapter 4 follows a review of the literature pertaining to this investigation.

Limitations of the Study

A limitation of any study of this nature relates to the inability to examine certain records which previously were part of a larger collection of business records. The nineteenth century records under investigation in this study pre-date the research period by between approximately 90 and 155 years. Inevitably, surviving sets of nineteenth century records available for this study are incomplete. Some records were likely to have been either discarded or lost by those who prepared or made use of the records or by their descendants. Alternatively, some surviving records may have been withheld from examination because they were regarded as "private" or "confidential" while other records may have been temporarily misplaced. As would be expected, there are varying degrees of incompleteness of the different sets of records under examination.

Extensive searches for records in both public and private archives were aimed at reducing the extent to which the available sets of records were incomplete. The biases evident in the research sample selected for this study are discussed in Chapter 4.

Literature Selection

As this study is concerned with accounting in the contexts in which it operated, the literature which elucidates the nineteenth century pastoral industry environment and pastoral station environment is reviewed. This follows the review of the accounting literature concerned with facets of accounting development and the recognition of key environmental factors which influence accounting. As outlined earlier in this chapter, the relevant accounting literature relating to Australian pastoral accounting practices in the pre-Federation period and the advent of an organized Australian accounting profession is addressed. Both primary and secondary sources are examined in elucidating the nineteenth century pastoral industry and station environments. These sources comprise diaries and other papers in manuscript, theses, official government records, newspapers and periodicals, contemporary printed sources and later secondary sources.

Pattern of Analysis

The following text is divided into three major parts. Part One (Chapters 2-3) is concerned with the review of the pertinent literature for this study. The literature relevant to aspects of accounting development and also key environmental factors is examined in Chapter 2, which also explains the cultural perspective adopted in this study. Chapter 3 elucidates the nineteenth century pastoral industry environment and station environment respectively.

Part Two contains four chapters (Chapters 4-7) relating to the examination of the surviving pastoral business records of the entities included in the research sample. Chapter 4 details the methodology of the study and includes a discussion of the research sample, the types of records subject to examination and the process adopted in gleaning oral evidence. Chapter 5 relates the backgrounds of those pastoralists whose surviving nineteenth century records are examined in this study. The account of the research findings provided on a case by case basis is given in Chapter 6. Chapter 7 contains an overview of the structure and usage of nineteenth century pastoral accounting information based on the findings reported in Chapter 6. This chapter identifies generally adopted practices and delineates trends in accounting practices in the period to 1900.