Accounting and Economic Systems: A Tribute to the Work of Jacques Richard

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Abstract This chapter presents a tribute to the work of Jacques Richard, who has been both a well-known professor at the University Paris Dauphine, and an important scholar regarding the history and development of accounting systems and international financial accounting standards. Professor Richard has also been an inspiring mentor to a generation of accounting students both in France and other countries.

This chapter is organized into four parts. First, there will be a discussion of Professor Richard's work focusing on accounting systems, and in particular his comparative study of the European experience with charts of accounts. In the second section, there will be a discussion of Professor Richard's work describing the development of the French accounting system through three stages from the static to the dynamic to the futuristic. Third, there will be a discussion of Professor Richard's work related to the transition from socialist accounting to capitalist accounting in former communist countries. Fourth, there will be a presentation of Professor Richard's critiques of fair value accounting and International Financial Reporting Standards (IFRS). In each of these areas Professor Richard has demonstrated a high degree of scholarship and a deep interest in the historical development of accounting systems from a comparative international perspective.

1 Accounting and Economic Systems and Charts of Accounts

Professor Richard has devoted a considerable amount of time to investigating relationships between accounting systems and economic systems. Among his first published works, Professor Richard (1975, 1980) studied the accounting and economic systems of four countries, the United States, France, West Germany

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and the Soviet Union. These efforts were followed (Richard 1995a, b) by a study of the European experience with charts of accounts both prior to and after the Second World War.

The motivation for these research efforts may be found in the works of various European accounting scholars who sought to establish a distinctive perspective with respect to their national accounting systems. During the late nineteenth and early twentieth centuries, there were scholars in different European countries who advanced specific approaches to accounting systems for the purpose of persuading the professional and academic accounting communities of the validity of their approaches. Names like Leautey and Guilbaut (1895) in France, and Schmalenbach (1927) in Germany come to mind. Many of these efforts did not become widely known outside their home countries because they addressed a national audience and they were not often translated into the English language.

More recently, comparative studies of accounting systems written in the English language have emerged which focus on differences between Anglo-American accounting systems and those of other countries (see Choi and Mueller 1978; Nobes and Parker 1985). A common theme running through these comparative studies is that accounting systems ought to be directed towards providing useful information. This is the predominant perspective of accounting in the Anglo-American countries, and in particular with respect to providing information that is useful to investors and creditors in making investment and credit decisions. That this view of accounting has not been the predominant one in many continental European countries is not that widely acknowledged by Anglo-American scholars. We might therefore suppose that Professor Richard has been interested in investigating the history of national accounting systems in order to explain the reasons for, and perhaps to justify, the distinctions between Anglo-American accounting systems and continental European accounting systems.

With respect to the topic of charts of accounts, Professor Richard has argued that in order to better understand the development of accounting systems it would be useful to investigate the European experience with charts of accounts (Richard 1995a). While the topic of charts of accounts may not be of great interest nowadays to accounting scholars, it can be noted that there has been a considerable amount of time, money and effort devoted to the development of XBRL which appears to be a type of chart of accounts that is intended to be used on a worldwide basis (XBRL 2013).

Professor Richard began his study of charts of accounts with two articles appearing in the *European Accounting Review* (1995a, b). In these articles he indicates that there are multiple functions for charts of accounts, ranging from the pedagogical, to internal control of business organizations, to providing information to investors and creditors in making investment and credit decisions, to the control of business enterprises by the state.

Professor Richard states that industrial charts of accounts may have been used as early as the thirteenth century in Europe (Richard 1995b; Scherpf 1955). These early examples of charts of accounts were directed more towards the development of theoretical frameworks to explain double-entry bookkeeping rather than to standardize accounting records. Professor Richard points out that the early charts contained insufficient detail to allow them to be employed to manage business enterprises. In fact, he observes that the concept of creating standardized charts of accounts applicable across a range of companies and industries did not emerge before the end of the nineteenth century. He suggests that three primary factors contributed to the development of standardized charts of accounts: (1) the growth of stock markets which required improved ways to compare the performance of business enterprises; (2) a growing concentration among business enterprises and the expansion of industrial groups, providing an impetus for the development of charts of accounts that would be common across companies and industries; (3) an increase in scientific research regarding standardization in general. Professor Richard also notes that, with respect to teaching accounting, textbooks that employed charts of accounts for pedagogical purposes began to be used in several countries, including Germany (Schär 1922) and Belgium (Blairon 1926).

Professor Richard also cites Fredrick Taylor's (1911) publications regarding the scientific management of work as a factor influencing the creation of charts of accounts in Europe during the early years of the twentieth century. The skeptical and even negative reaction of German industrialists and academics to Taylor's publications led to the creation of both private and public bodies to study the scientific organization of work in Germany. Before 1930, a liberal economic ideology had prevailed in Germany, but this ideology disappeared in the face of the Weimar Republic's inability to control the inflationary German economy or to prevent the rise of National Socialism. Professor Richard indicates that the demise of liberal economic ideology led to the influence of a school of thought that was hostile to free enterprise. He cites Rathenau (1917) who argued that the German economy should be based on scientific reasoning and social responsibility; it should be a "conscious" economy able to struggle against the defects of capitalist society (recession, unemployment, etc.). For Rathenau, this new economy should be structured around three fundamental propositions: (1) the reinforcement of industrial concentration; (2) the creation of interlinked professional and corporate associations that could fix production and prices and close inefficient plants; (3) the creation of a standardized accounting information system for companies' cost and prices. There was an anti-liberal bias to these proposals.

Influenced perhaps by the intellectual atmosphere of his time, in 1927, Eugen Schmalenbach, Professor at the University of Cologne, published an accounting chart model which contained four objectives: *First*, was an educational objective, to teach accounting; *Second*, was to suggest a way of organizing business enterprises based on the principle of decentralization; *Third*, was to design an accounting information system enabling rapid decision making; *Fourth*, was to make cost accounting a useful tool for the German nation. Professor Richard (1995b) argues that the anti-Taylorist nature of Schmalenbach's work was clear when he expressed his regret that "the centralizing principles to be found in the Taylor organization process ... are dominating the majority of companies in Germany, as is also the case in the USA" (Schmalenbach 1935, p. 11). Professor Richard indicates that Schmalenbach had a strong distrust of industrial groups and cartels which, using the power of the state, sought to control prices and thereby the economy. Schmalenbach emphasized “the dangers of bureaucratic administration and state control of businesses” (Richard 1995b, p. 101; Schmalenbach 1935, p. 12).

It is therefore somewhat surprising, given Schmalenbach’s relatively liberal attitude towards business economics that his chart of accounts subsequently came to have a significant influence not only on the Nazi economy, but also in France, under the Vichy government, and in the USSR, under the communist regime (Richard 1995b, p. 104). Professor Richard’s conclusion regarding this apparent contradiction in Schmalenbach’s work is that charts of accounts have been used in both centralized economies and capitalist economies, and that there is no necessary relationship between state control of economic activity and the existence of charts of accounts. The success of the Plan Comptable Général in France provides some evidence regarding this conclusion.

2 The Development of the French Accounting System

Professor Richard (2003b) suggests that the French accounting system developed through three distinct stages beginning with the *static* stage, from about 1800 to 1900; to the *dynamic* stage from about 1900 to 2005; and finally to the *futuristic* stage beginning with the adoption of International Financial Reporting Standards (IFRS) in 2005. These stages have been characterized by different accounting logics pertaining to the valuation of assets and the measurement of the accounting result (net profit).

During the *static* stage of the nineteenth century, there were conflicts between capitalist entrepreneurs and bankers and other creditors who provided external financing. French commercial law of the nineteenth century emphasized the rights of creditors in order to limit creditor losses in the event of bankruptcy (Hilaire 1986). The basic assumption underlying the *static* theory (Schmalenbach 1919) was that every human enterprise is mortal and may experience unexpected death at any moment. Consequently, static accounting theory and commercial jurisprudence emphasized the “principle of death” according to which it is necessary to envision the possible failure of the enterprise and then proceed as if the enterprise must be liquidated. This concept of “fictitious liquidation” requires the valuation of assets at market values. The objective is to determine the amount that is necessary to cover liabilities in the case of bankruptcy (Richard 2003b).

The *static* theory has significant implications regarding the valuation of assets, particularly intangible assets, such as organization costs, research and development, advertising, training costs and acquired goodwill, which have no ready market value. This applies as well to specialized machinery that cannot be sold. Furthermore, according to the *static* theory, not only potential losses are taken into account but also unrealized holding gains. This could be the case, for example, for land, buildings, and financial investments. Because of the difficulties associated with the recognition of unrealized holding gains, the *static* theory began to be modified during the course of the nineteenth century in order to prevent the distribution of unrealized holding gains as dividends. In first half of the nineteenth century, most French companies operated under the legal regime of unlimited liability. Some lawyers accepted the idea that unrealized holding gains could be recorded in the accounts and that the profits arising from these unrealized gains could be distributed as dividends because in the event of bankruptcy the unrealized holding gains could be recovered from the private assets of the entrepreneurs. Towards the middle of the nineteenth century, when new commercial laws allowed for the relatively easy formation of limited liability companies, the *static* theory was modified so that unrealized holding gains could no longer be distributed as dividends. In summary, the *static* theory was based on recording assets at fair values while reflecting the corresponding unrealized holding gains in special reserves or eliminating the unrealized gains from the balance sheet (a sort of "lower or cost or market rule") (Richard 2003b).

The *static* stage of French accounting was largely dominated by a doctrine of economic liberalism in which the format of the profit and loss statement was left to the discretion of the business owner, thereby leading to a wide diversity in profit and loss statements. The basic model of the profit and loss statement involved a classification of expenses by function, thereby allowing a distinction between cost of goods sold and administrative expenses (Lemarchand 1993). This concept, which is generally congruent with an integration of financial and management accounting, was also consistent with a microeconomic view of the firm which focused on the net profit available to the capitalist entrepreneur and demonstrating how that profit was produced at different stages of the production cycle.

The transition from the *static* stage to the *dynamic* stage was motivated in part by pressures from shareholders for the distribution of regular and consistent dividends. Regular and consistent dividends were not feasible when assets were measured at fluctuating fair values, or when no values at all were assigned to intangibles. The *dynamic* theory was based on the idea of recording assets at historical costs and reflecting systemic depreciation of fixed assets and amortization of other deferred costs. Schmalenbach (1919) argued in favor of this *dynamic* approach to accounting. The trend towards a *dynamic* approach was re-enforced by the appearance of the tax administration in the French accounting system. The determination of taxable profit according to the tax law involved the deduction of depreciation measured by dividing the purchase cost of the asset by the number of years of use. During the second half of the twentieth century, most French enterprises applied tax rules at the individual account level (as opposed to consolidated accounts), and these enterprises were obligated to record the legally allowable amount of depreciation in the accounts if they wanted to have depreciation recognized by the tax administration. This meant that a systematic depreciation allowance (usually straight line) without reference to market value, was the most popular method used (Richard 2003b).

After the Second World War, the *dynamic* stage of the French accounting system was incorporated into the individual accounts structure of the *Plan Comptable Géné ral*. With respect to various types of intangibles, such as organization costs, research and development, advertising, training and goodwill, these kinds of assets were required to be capitalized and amortized over a relatively short period of time (less than 5 years). In addition, the individual accounts were the only legal basis for the distribution of dividends. Shareholders wanted to have consistent dividend payments which were only achievable through the use of a systematic system of depreciation charges based on historical costs for fixed assets. In addition, individual accounts were the basis for tax determination. Therefore French enterprises, especially those which were not listed on stock exchanges, became comfortable with tax rules that provided for systematic depreciation (Richard 2003b).

After the Second World War, in a context marked by the influence of the communist and Gaullist political movements and the desire to institute production planning and re-distribution of wealth, the first attempts to construct a national system of economic information emerged. In 1947, the *Plan Comptable Général* was created with a dualist structure, pursuant to which accounts for financial accounting were separated from accounts for management accounting. There was also an attempt to promote a standardized classification of expenses by nature. This first attempt in France at a systematic and nationwide set of charts of accounts did not satisfy stakeholders and entrepreneurs, consequently, in 1982, a revised *Plan Comptable Général* gave birth to a new type of classification of expenses by nature permitting the identification of certain macroeconomic data for each enterprise, such as the measurement of value added and its distribution. However, value added was primarily used by trade unions. This type of chart of accounts was designed to permit better transparency regarding the division of wealth among various stakeholders both at the micro-economic and the macro-economic levels. This change was not well accepted and most French companies were reluctant to use the information to publish value added statements (Haller and Stolowy 1995). As a result, following pressures on the French accounting system from the Fourth European Directive and the introduction of IFRS, the French accounting system no longer includes an obligation to show profit and loss statements classified by nature (Richard 2003b). However, the debate regarding the proper way to measure the accounting result (net profit) continues to re-appear among accounting theorists and business economists, and in more recent periods, also in debates surrounding stakeholder theory and corporate social responsibility. Hence, the subject of value added and its distribution is again becoming of central importance.

3 The Transition from Socialist Accounting to Capitalist Accounting

The fall of the communism in the latter decades of the twentieth century provided an opportunity to study the impact of the transition from a communist type of accounting system to a capitalist system (Richard 2003a, p. 332). This transition offered a unique opportunity to identify those "accounting features" required for a capitalist economy that differ from the accounting features in planned and centralized economies. In this regard, Professor Richard (1997, 2000, 2003a) studied the passage from a communist accounting system to a capitalist system in several Eastern European countries. In his theoretical framework, Professor Richard included a number of categories, including: sources of accounting regulation and standards; fundamental objectives of accounting; the users of accounting information; the basic principles of accounting; basic accounting concepts; rules of valuation; structure of accounting institutions; and the existence of external audits of company accounts. He emphasized that even though the accounting transformations were similar from one country to another, numerous differences could be observed with respect to the specific changes in accounting systems, indicating that each country experiences a distinct set of accounting transformations.

Professor Richard's (1997, 2003a) work in studying the transition from communist accounting systems to capitalist accounting systems has influenced other accounting scholars, including for example Chiapello and Ding (2005). Table 1, adapted from Chiapello and Ding (2005) summarizes the accounting changes that

Table 1 Comparison of communist and capitalist systems [adapted from Chiapello and Ding (2005)]

Communism	Capitalism	Effects on accounting
Category I: Definition of the business entity		
Organized so as to produce goods by means of centralized planning of production	Focuses on profits. Invested capital must produce a profit, which is then reinvested in the business in order to generate additional profit in subsequent periods	Definition of the accounting entity Role of accounting in society Concept of capital and the definition of profit
Category II: Role of the market		
There is no market; businesses are coordinated into hierarchical systems Prices are fixed bureaucratically	There is a market and companies operate in competition with one another Prices depend on supply and demand Uncertainty regarding future prices in markets	Importance of recording receipts and expenses Role of accounting in society Conservatism principle
Category III: Capital accumulation and private ownership		
The funds required for economic activity come exclusively from the State	The funds required for economic activity come from private providers of capital	Format and definition of balance sheet assets and liabilities
The concept of profit does not exist Because incomes are determined by the state, the range of incomes is narrower The distribution of wealth is more equal and includes a wide range of social services	The reinvested profit is combined with the initial capital, which belongs to the shareholders The income of individuals is derived from their work or their capital and incomes vary widely	Definition of the company's income and profit Methods used for distribution of profits Accounting treatment of workers' salaries

Table 2 Model of accounting changes in the transition from communist accounting systems to capitalist accounting systems [adapted from Le et al. (2013)]

	Economic changes			
Accounting changes	Gradual separation of the State from the economic sphere	Alternative to centralized planning: market coordination	New conception of the firm	Financing sources: private capital
Sources of accounting regulation	Ministry of Finance	Government appointed standards setter	Standards setter with professional accounting and company representation	Independent standards setter
Objectives of financial reporting	Accounting is used to coordinate the macro economy and facilitate foreign trade	Accounting information becomes the basis for calculation of taxation	Accounting information is used in corporate governance decision making	Accounting information is used to measure the return on equity, economic performance and to help in decision making concerning the resource allocation within companies
Users of accounting information	Indirect control by the State	Information for significant shareholders (i.e. the State and State controlled banks)	Communication between the company and a growing group of stakeholders	Information for Markets and potential shareholders
Entity principle	• Withdrawal of the State from the State owned and run firms governance • Creation of Company law	The company is recognized as a legal, moral and independent person	Firm responsibility towards shareholders' equity begins	• Creation of equity accounts and birth of the notion of "Shareholders' equity"

have taken place in the transition from communist accounting to capitalist accounting in China.

In a more recent study, Le et al. (2013) have also developed a model of accounting changes in the transition from communist accounting systems to capitalist accounting systems in 14 different countries. This work has been influenced by the work of Professor Richard and reflects some of the ways that accounting institutions, principles and standards change in response to the transition from a communist accounting system to a capitalist accounting system (Table 2).

The works of Chiapello and Ding (2005) and Le et al. (2013) underscore the fact that Professor Richard has had a great influence on accounting scholarship over a period of many years.

4 A Critique of Fair Value and IFRS

Within a relatively short period of time, International Financial Reporting Standard (IFRS) have become the accounting "referential" for many countries around the world. In some quarters this has been a cause for celebration, while from others there has been considerable criticism. Even among the supporters of IFRS there has been a lack of recognition of the different ways in which IFRS has been implemented in different countries (Baker et al. 2010). Thus, it seems that there may be a considerable period of "contested" IFRS from several different perspectives.

Professor Richard (2009) argues that prior to the financial crisis of 2008 to 2014 there was a high degree of consensus regarding the importance of moving towards IFRS and the concept of "fair value" measurements. Many former advocates of fair value have become less vocal or have attempted to show that the underlying causes of the crisis did not come from IFRS but rather from the behaviours of irresponsible managers and traders. Other advocates have continued to argue that fair value is useful, but not during a financial crisis in which markets collapse. This is because during such periods, many markets become so illiquid that market values simply disappear. It is this kind of argument that has allowed the IASB and the other standards-setting bodies to justify their reversal regarding the question of measuring trading securities at fair value and to avoid the disclosure of significant drops in share prices (Richard 2009).

Professor Richard has argued that IFRS are obsolete because they do not respond to crisis situations in the contemporary world. He maintains that the reason for this is the emphasis in IFRS on providing information that is useful to investors and creditors in making investment and credit decisions; in other words, a shareholder and creditor orientation. Professor Richard argues that in an era in which environmental degradation poses a serious threat to the survival of the world, environmental and human capital should become the central focus of financial reporting (Richard 2009).

Professor Richard also argues that IFRS are dangerous because they have rejected the principle of prudence. He maintains that the roots of the 2008 financial crisis can be found in a lack of prudence by managers and shareholders who seek short-term profits. By attempting to remove the principle of prudence, the IASB has contributed to the rise of the irresponsibility of financial capitalists. Professor Richard suggests that we should abandon IFRS in favour of environmental accounting. To achieve this goal, it would be necessary to introduce greater democracy within the national and international bodies governing accounting regulation. Currently, it is primarily the representatives of financial capital who control these bodies. To change this state of affairs, representatives of human and environmental capital, with the backing of public opinion, should become more dominant (Richard 2009).

Professor Richard's critique of IFRS and fair value can be found on the website of the University of Paris-Dauphine. As such, it is not a scholarly academic publication like most of the prior work of Professor Richard discussed in this chapter. Instead, it appears to be a sort of manifesto. In this sense, the critique appears to be similar to other critiques that have been expressed by the *Critical Accounting* movement. The *Critical Accounting* movement has emerged as a counter-weight to so-called "mainstream" accounting research in the last 20 years, and as such it provides a useful viewpoint from which to reflect on contemporary accounting issues (Baker 2011). Professor Richard's academic career has been principally devoted to a series of scholarly investigations of the history of accounting systems from a comparative international perspective and his contributions to the accounting literature have been impressive and outstanding. It is therefore interesting to note this somewhat more polemical side of his academic work appearing in the later part of his career, as reflected in the critique of IFRS appearing on the University of Paris Dauphine website (Richard 2009).

In summary, then, we can say that Professor Richard has produced an important body of work which has contributed to the history of the development of accounting systems from a comparative international perspective, and that he has been an inspiring mentor to his students and his colleagues over many years.

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