

## STATUS AND REGULATION OF THE ACCOUNTING SYSTEM IN LITHUANIA DURING THE INTERWAR PERIOD (1918-1940)

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*The article deals with the legal acts regulating accounting management in the first years of the independence of Lithuania. Forms of balance sheets and profit and loss accounts applied by the industrial enterprises of the period are presented and evaluated. The status of personnel training in accounting and of scientific research is analyzed.*

**Key words:** *accounting, financial statement, training of personnel, scientific research.*

### Introduction

Accounting is one of the most important sources of economic information. Information it provides is used at various levels of company management when taking efficient and perspective decisions. No enterprise, office and organization may function without accounting. Well-managed accounting helps to evaluate the financial status of the company and its divisions as well as performance results, to control the fulfilment of plans, orders and other tasks, to reveal the opportunities for improvement and continuity of operation, etc. Therefore, of special importance it is to create the advanced accounting system. This was one of the primary tasks after proclamation of Lithuania's independence.

It is difficult to answer unambiguously how the accounting was handled in interwar Lithuania and what its contribution into the improvement of the present-day accounting system of Lithuania could be. The status of accounting in interwar Lithuania has been scarcely studied so far. Only some issues of its management have been studied by L. Krivka (1990, 1994), J. Mackevičius (1991), O. Žekienė (1990).

*The aim of the article* is to study the regulation of applying accounting management in interwar Lithuania, financial statement, training of personnel, and status of scientific research.

*The object of research* is the accounting system in interwar Lithuania.

*Methods applied in research* are logic analysis of scientific works by Lithuanian authors, comparison of information, detailing and generalization.

### 1. Status and Regulation of the Accounting System in the First Years of Independence

Proclamation of the independence of the Republic of Lithuania (16. 2. 1918) was of importance not only for the political and economic development but also for accounting system development. The formed independent Republic of Lithuania, however, had to start many things from zero. The qualified staff, cultural traditions, modern industry, and specific educational system were lacking (Martišius, 1989, p. 3). These words may be well applied to accounting, since both its theory and practice was closest to zero. It must be noted that it is difficult to specify precisely the status of accounting of the period, since special studies on accounting development in Lithuania are absent; the surviving archival material is scarce.

Accounting policy was predetermined mostly by two factors: the size of a company and specificities of business. Accounting of bigger companies differed considerably from small and medium-sized ones. Then statistics considered an industrial enterprise belonging to only one person as well as to a group of persons as an accounting unit. Financial bodies, taking into consideration the number of workers and the scale of production, determined the category of a company. In addition, when identifying the category of a company, attention was drawn whether the company used the motive power, i.e. whether power equipment was used in the production.

During that period, nine categories of industrial enterprises were valid. Category 9 included craftsmen workshops that had no right to hire workers; Category 8 – enterprises where from 2 to 4 hired workers were employed. In terms of accounting organization those organizations should be deleted from the total number since no accounting existed here. Other enterprises were grouped by the number of hired workers. For example, enterprises having from 500 to 1000 workers were attributed to the first category. Enterprises with from 200 to 500 workers belonged to Category 3, and Category 7 enterprises employed not more than 10 workers. Trade enterprises were divided into three categories.

Thus a good number of categories of enterprises dictated "their own" accounting forms, specific primary documents and accounting registers. The procedure of accounting of enterprises of various categories was regulated by the Law on Accountancy Books of Trade, Industrial and Credit Institutions of the Republic of Lithuania of 24 July 1924 (Official Gazette, 1924, p. 3-5). This Law also specified that first-category trade enterprises as well as industrial enterprises of the second, third and fourth categories had to keep the following accounting books: 1) memorial or daybook; 2) cash book; 3) ledger. In addition, industrial enterprises also had

to keep the following books for: 1) materials; 2) calculations; 3) manufactured products; 4) goods; 5) settlements, and 6) copies of letters.

The second-category trade enterprises as well as industrial enterprises of the fifth and sixth categories had to keep the following books for: 1) goods; 2) cash book; 3) settlements, and 4) trade expenses. Industrial enterprises of fifth and sixth categories also had to keep books for materials, manufactured products, and production expenses accountancy book.

The third-category trade enterprises had to keep the book of goods:

- a) for recording of the receivable goods, indicating their purchasing prices;
- b) for recording of the sold goods, indicating their selling prices in cash or when buying on credit.

The Law on Accountancy Books of Trade, Industrial and Credit Institutions of the Republic of Lithuania (1924) indicated that accountancy books had to be kept without any erasures, rubbing out, smearing or additions in-between lines or items. An error had to be corrected in red, with a certain note below the article. Book pages had to be numerated. Accountancy books had to be kept in the state language - Lithuanian. The first-category trade enterprises and industrial enterprises of the first, second, third and fourth categories had to store accountancy books for five years, and trade enterprises of the second and third categories and industrial enterprises of the fifth and sixth categories for three years.

In the first years of the independence of Lithuania, the 1924 Law on Tax on Trade, Industry, Credit and Craft Profit (Official Gazette, 1924, No. 181, p. 2-5) had a major impact on bookkeeping organization. Under this Law the two groups of profit taxpayers were distinguished.

The first group covered small trade and industrial enterprises, bank offices, commission and similar establishments, which did not draw up accounts, therefore it was enough for each payer at the beginning of the year to submit an application to the tax inspector about the previous year profit amount. If profit tax was not calculated or paid for some reasons in due terms, it could be recovered within 10 years. Enterprises and institutions listed in the first chapter of the mentioned Law were exempt from profit tax. For example, just established enterprises were exempt from profit tax, if they existed not longer than three months before the end of the calendar year, as well as educational, science, art, politics and charity societies, credit and agricultural co-operatives, consumer co-operative societies, the capital of which was not higher than LTL 50.000.

Stock companies, companies, societies on sharing, various credit and other institutions that had to be accountable in the press or at the meeting of their members were considered as belonging to the enterprises and institutions of the second group. Enterprises and institutions of this group had to submit their accounts to the Ministry of Finance of the Republic of Lithuania. They had to submit balance sheet, profit and loss account and a copy of the minutes, confirming the account. The account submitted by the Ministry of Finance to the Tax Department was deemed to be finally approved, if no clarifications from the Tax Department were required within the six months after its filing. Where necessary, the Tax Department had the right to examine in-place and update accountancy books and all the accompanying documents.

The mentioned 1924 Law on Profit Tax was changed in 1931 and was referred to as the Law on Business Profit Tax (Official Gazette, 1931, p. 1-9). This Law foresaw profit tax rates, the procedure for calculation and payment of the amount of profit tax. The State enterprises, stock and co-operation societies, credit institutions, banking and currency exchange bureaus had to submit the following accounts to the Ministry of Finance of the Republic of Lithuania: 1) the final balance sheet of the accountable period; 2) a copy of the minutes of account approval; 3) a copy of the inspection act of the inspection commission; 4) profit and loss account; 5) a register of the circulation of synthetic accounts; 6) profit appropriation, approved by the general meeting of the shareholders of the enterprise; 7) an inventory list of the enterprise; 8) profit tax calculation; 9) remuneration amounts paid to the management staff; 10) amounts of the depreciation fund. However, practice showed that not all the enterprises followed the procedure prescribed by the law.

In 1925, the Stock Company Law was approved. In accordance with this Law the board of the stock company had to be responsible for accounting management. The board of the company also would convene the annual meeting of shareholders for discussing and approving of the previous year accounting, appropriation of profit, determination of an estimate of the current year, election of the board and the audit commission members and solving of other matters proposed by the board. The type and size of activity was most of all predetermined by the procedure of accounting handling in stock companies. Commonly, accounting of larger companies was kept according to the sample of accounting of the invested capital of the appropriate state. Since the capital into the Lithuanian stock companies was mostly invested by the West European shareholders, accounting most often was organized according to the German and French accountancy forms. However, it was practically impossible to fully adapt the German, French or some other accountancy form due to many reasons, since methodical literature and highly professional accounting specialists were in shortage. Therefore self-made

documents and auxiliary books were used for reflecting the corresponding operations in accounting (Krivka, 1990, p. 34–35). Some accounting registers were quite primitive. Entries were hand-made; calculation equipment was seldom used.

## 2. Composition of Financial Statement

Seeking to further regulate calculation of tax on profit and accounting, in 1925 the Ministry of Finance of the Republic of Lithuania developed an instruction for implementation of the Law on Tax on Trade, Industry, Credit and Craft Profit. This instruction contained forms of balance sheets, profit and loss accounts separately for industrial, trade enterprises and credit institutions. Below we present the forms of balance sheet and profit and loss accounts (Tables 1. and 2.).

Table 1. **Balance Sheet of Industrial Enterprises**

<i>Assets</i>	<i>Liabilities</i>
1. Unpaid capital	1. Fixed capital
2. Cash	2. Reserve capital (foreseen by the Articles of Association of the company)
3. Foreign currency and cheques	3. Extraordinary reserve capitals (it is necessary to indicate them by types)
4. Current accounts in banks	4. Depreciated capital
5. Bills	5. Issued bills
6. Bills for collection	6. Discounted bills
7. Protested bill	7. Current accounts
8. Debtors	8. Creditors
9. Doubtful debtors	9. Dividend not paid
10. Goods:	10. Carry-overs
a) raw material	11. Net profit
b) semi-finished products	
c) finished products - goods	
11. Securities	
12. Mortgages	
13. Movable property:	
a) machines	
b) factory arrangements and tools	
c) live inventory	
14. Real estate:	
a) land	
b) buildings	
15. Other assets	
16. Carry-overs	
17. Net loss	

Stock companies in addition to balance sheet and profit and loss account also had to prepare a report on the company's property and its status. The auditing commission of the stock company had a great impact on the quality of financial statement formation. It not only approved statement but its members at any time could check how accounting books and documents were handled. The auditing commission checked regularly cash balance and securities (shares, bonds).

Balance sheets of stock companies and profit as well as loss accounts had to be published in the "Official Gazette", therefore these accounts could be analyzed and examined by all those interested in the activities of any of the companies. Analysts of balance sheets of stock companies of the period (Dragūnas, 1939, p. 654–655, Ragevičius, 1934, 1935, et al.) maintained that articles of balance sheets of stock companies differed not only by their names but also by their economic contents. For naming the same item, different terms were used. Because of those reasons, it was difficult and even impossible to compare balance sheets of various stock companies. The stock companies could increase the number of items of the accounting balance sheet at their own discretion. M. Dragūnas' investigation showed that balance sheets of some stock companies had 40 items of assets and 30 items of liabilities. He proposed not more than 16 names of items in the balance sheet. In the assets of the balance sheet the following items were proposed to be reflected: Cash and Current Account; Debtors: various persons and institutions; Goods; Semi-finished Products; Raw Materials and Materials; Bills (in portfolio, bills for collection, bills of clients); Movable Property; and Real Estate. In the liabilities of the balance sheet the following items were proposed to be reflected: Stock Capital; Depreciated Capital; Current

Accounts in Banks; Special Accounts in Banks; Given Bills (Dragūnas, 1939, p. 654–655). Variety of items in the balance sheet was inconvenient not only for balance sheet analysis, but also afforded the opportunity for accountants of the companies to reflect funds and their sources not completely, to manipulate the data. Different names of items hindered to make the consolidated balance sheet at the scale of the branch.

Table 2. **Profit and Loss Account of Industrial Enterprises<sup>1</sup>**

<i>Items of losses</i>	<i>Items of profit</i>
1. Salaries of: <ul style="list-style-type: none"> <li>a) the board, council, supervisors of the auditing commission institution and their deputies</li> <li>b) employees</li> </ul> 2. Daily allowance and travel expenses           3. Office and company apartment expenses: <ul style="list-style-type: none"> <li>a) rent, fuel, light</li> <li>b) repairing</li> <li>c) insurance</li> </ul> 4. Car maintenance           5. Horse keeping           6. Advertising           7. Office-work           8. Printing expenses           9. Expenses for charity purposes           10. Taxes           11. All other minor expenses           II. Fabrication costs <ul style="list-style-type: none"> <li>a) for salaries of workers</li> <li>b) .....</li> <li>c) .....</li> </ul> III. Costs of goods: <ul style="list-style-type: none"> <li>1. Transportation costs of raw material and products</li> <li>2. Product sales costs</li> <li>3. Insurance of raw material and products</li> <li>4. All other expenses</li> </ul> IV. Losses from other operations: <ul style="list-style-type: none"> <li>1. Interest paid for borrowed money</li> <li>2. Commission paid</li> <li>3. From shares, stocks and securities belonging to the institution</li> <li>4. From exchange rate distributions</li> </ul> V. Writings off: <ul style="list-style-type: none"> <li>1. Movable property (machines and other inventory)</li> <li>2. Real estate (buildings 5%)</li> <li>3. Spoiled products and raw material</li> <li>4. Debtors</li> <li>4. Protested bills</li> </ul> VI. Extraordinary losses: (to be indicated)	I. Profit from sold products: ..... .....           II. Profit from other operations: <ul style="list-style-type: none"> <li>1. From shares, stocks and securities belonging to the institution</li> <li>2. Interest on current accounts and bank deposits</li> </ul> 3. Commission <b>4. Management of movable property and real estate</b> <ul style="list-style-type: none"> <li>5. Other profit</li> </ul> III. Extraordinary profit: <ul style="list-style-type: none"> <li>1. Written off movable property and real estate profit</li> <li>2. Written off product and raw material profit</li> <li>3. Written off debtor profit</li> <li>4. Profit from written off protested bills</li> <li>5. Dividends not duly paid</li> <li>6. Profit from currency rate differences</li> <li>7. Other profit</li> </ul>

<sup>1</sup> It is noted that profit and loss account was not called account but invoice. Moreover, the first word in the name was “loss” and not “profit”.

Profit and loss accounts of stock companies also greatly varied. For example, in the profit and loss account of 31 December 1934 of the Tobacco and Cigarette Sale Stock Company such items, like minor expenses, telephone expenses, discounts, security expenses, expenses for the patients' fund, expenses for sugar, tea, and medications, expenses for post stamps and bill forms, expenses for office-work and printed matter and other expenses were presented (Official Gazette, 1935, No. 379, p. 12). In the accounts of other stock companies different expenses were also indicated. At the end of the profit and loss account, a profit appropriation scheme needed to be provided, i.e. what amount of it was allocated to various reserve capitals, charity and education, dividends, bonuses, etc.

It is noted that many of industrial and trade enterprises (especially smaller ones) did not fully follow the presented profit and loss account scheme. The companies would present a profit and loss account without its division into sections.

### **3. Training of Accounting Personnel and Scientific Research**

In independent Lithuania, inconsiderable attention was devoted to the training of specialists in accounting. Before the World War I, two commercial and one trade school as well as accounting courses, involved in training accounting specialists for trade and industrial enterprises, were in operation. During the war, when Germany occupied Lithuania (1915–1918), the courses were closed, and commercial schools were evacuated to the depth of Russia (Vilimienė, Krivka, 1978, p. 39).

In 1922–1924, two institutions of higher education were established in Lithuania: the University of Lithuania (1922) and the Lithuanian Academy of Agriculture (1924). In these schools, however, accounting specialists were not trained. Accounting specialists were not trained in the Klaipėda Trade Institute opened in 1934 as well. As a matter of fact, accounting was among the subjects taught to the students majoring in economics.

The main role in the training of accounting specialists for economic enterprises of independent Lithuania belonged to commercial gymnasia, trade schools and school-type courses. In 1926, two state and one private commercial gymnasium functioned in Lithuania. In 1939, six commercial gymnasia with 1556 students operated. In the mentioned gymnasia accounting and commercial arithmetic was taught (Dragūnas, 1939, p. 557).

Later, trade schools started to be established in Lithuania. The first trade school was founded in 1934 in Šiauliai. Similar schools were also subsequently set up in Kaunas, Klaipėda, Panevėžys, and Vilnius. In 1939, 4 state and 2 private trade schools functioned in Lithuania. The number of students in those schools totaled 1469. The trade schools were of two levels (lower and higher, or Level I and II). In Level I trade schools salesmen were trained, and in Level II trade schools – bookkeepers and accountants (Žekienė, 1990, p. 44).

A certain part of accounting employees were trained in one- and two-year courses, which usually belonged to private persons, but were under the auspices of the Ministry of Education and the Ministry of Finance. All the courses of the period were concentrated in Kaunas. Jonas Ilgūnas founded one of the first accounting courses in Kaunas in 1919. The above-mentioned courses survived until 1940. They were attended by quite a large number of students.

Nevertheless, the system of training of accounting specialists in independent Lithuania was not able to satisfy the needs of the economy. Simultaneously, the owners of trade and industrial enterprises did not devote sufficient attention to the handling of accounting and did not evaluate the importance of accounting. The opinion prevailed that everybody who could write and count might become an accountant. Therefore in some enterprises the handling of accounting was carried out for lower wages. It is understandable that such “cheap” accountants most often had a poor understanding about accounting, made mistakes and confused it still more, financial statement was inaccurate. However, we cannot assert categorically that the profession of an accountant was nobody’s concern in Lithuania. The Ministry of Education prepared special examination rules, which had to be used from 1934 for the persons examined to acquire the title of an accountant or bookkeeper. In these rules, developed according to the programme of higher trade schools, it was indicated that persons willing to take examinations for the title of an accountant should be not younger than 21 years and should have the work record in the speciality of no less than 2-3 years. An accountant, not younger than 24 years and with the 5-year work record in the speciality, could be granted the title of an accountant.

Scientific research of accounting was performed by the efforts of some authors. Jonas Ilgūnas is credited for the most considerable contribution to the science of accounting. He wrote several textbooks and teaching aids. In 1921 his textbook intended for commercial schools was published, and in 1924 the second part of the textbook, which was subdivided into two chapters: the general fundamentals of accounting and a special course in accounting, designed for separate branches of the economy (Ilgūnas, 1921, 1924). It is necessary to note that textbooks by J. Ilgūnas were written on the basis of the works of the tsarist Russian scientist E. Sivers and other Russian authors. In 1921, a concise Lithuanian–Russian dictionary of accounting terms was given in the textbook. Here the author also provided some knowledge from the accounting history, acquainted with the L. Pacioli double-entry system.

In the works of other authors (Augustinavičius, 1929; Gaigalaitis, 1925; Kuzmickas, 1929; Šalčius, 1922 et al.) the double-entry system, the essence of synthetic and analytic accounts were described, special attention was focused on the handling of primary documents and accountancy books, and the balance structure was

studied quite in detail. In the economic journals of the period "Lietuvos ūkis" (Lithuanian Economy), "Tautos ūkis" (National Economy) and "Talka" (Help) several articles designed for the improvement of accounting and balance sheet analysis were published. Articles by K. Sruoga published in the journal "Tautos ūkis" (National Economy) in 1937-1938: "Is it worth of calculating?", "Do we calculate cost-price correctly?", "Costs of material in the production and cost-price", "Labour costs and product cost-price", and "General production costs and product cost-price" are worth of mentioning. In the above-mentioned articles the author showed that calculation of product cost-price had been given inconsiderable attention so far, therefore in many cases it was calculated not precisely.

Even though the role of accounting in the practice of enterprises got increased, scientific research of its theory and practice was incidental and not systematic. The science of accounting did not have such conspicuous personalities like Prof. A. Rimka, a statistician, Prof. V. Jurgutis, a theoretician in finance and credit, Prof. P. Šalčius, a specialist in cooperation, Prof. E. Galvanauskas, the creator of the company's business, who wrote significant works, important for the economic, political and social life of the country.

### Conclusions

Proclamation of the independence of the Republic of Lithuania (16. 2. 1918) was important not only for the political and economic development but also for accounting system development. The procedure of accounting management was predetermined by two main factors: the size of a company and business type. On 24 July 1924, the Seimas of the Republic of Lithuania passed the Law on Accountancy Books of Trade, Industrial and Credit Institutions. Pursuant to this Law all Lithuanian industrial enterprises were divided into nine categories. Each category had to apply different accounting rules

In 1925, the Ministry of Finance of the Republic of Lithuania prepared the laws on industry, trade and credit, forms of balance sheet as well as profit and loss account. Research showed that balance sheets as well as profit and loss accounts of many companies differed greatly. Item names differed, as did their contents and number, therefore it was difficult to compare them and to make a consolidated balance sheet at the scale of the branch and the country.

Consistency of the contents of company balance sheet items was based on the mobility of assets: first of all, the most mobile assets items were shown (starting from real estate and ending with losses). Items of liabilities were formed vice versa – the fixed capital was followed by short-term credit liabilities and finalizing with the net profit item. The structure of the liabilities part in the balance sheet was not quite logically related with the assets part since the turnover of the resources of funds was not taken into consideration.

Profit and loss account consisted of two parts: 1) losses (the term "losses" was used whereas "costs" was not used, and the former was out of place here) and 2) profit. The losses part specified in detail the items of expenses like salary, daily allowance and travel expenses, advertising, office-work and marketing, printed matter expenses. Separate parts of the account showed production and goods (fabrication) costs. Even various minor and insignificant expenses had to be reflected in a separate item.

Research showed that insufficient attention was devoted to the training of accountants and scientific research during the interwar period in Lithuania. Professional accountants were trained in commercial schools and private courses, only. Scientific research in the accounting system was conducted by the efforts of some authors. It was Jonas Ilgūnas that made the most considerable contribution into the science of accounting.

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