

Katalin Borbély

Modernity and Timeliness – The Most Important Aspects of Hungarian Accounting in the First Half of the 20th Century

SUMMARY: The purpose of the article is to present the most important aspects of the Hungarian accounting in the first half of the 20th century. Beyond the history of the profession, the study investigates (economic) historical and legislative processes because without their examination the significance of the professional information cannot be properly evaluated. The two issues examined as a priority are accounting organisation and the measurement of the financial position of companies. The examination is based on contemporary authors' studies. Both aspects and their approaches are unambiguous and practice-oriented. No doubt the professional approach of the examined period was modern and timely.

KEYWORDS: accounting history, Hungary, regulation, measurement of the financial position

JEL CODES: K29, M41, N01

DOI: https://doi.org/10.35551/PFQ_2019_3_7

The first half of the 20th century is particularly interesting in terms of the accounting profession as the impact of the historical events is clearly reflected in the regulation of the examined period, in the questions raised by the experts and the responses given to them. The purpose of the article is to present and assess the major issues that preoccupied the most excellent members of the profession in the examined period.

As the study is part of a larger-scale research, the methods used fit the methodology of an

article presenting an earlier stage of the history of Hungarian accounting (Borbély 2017), so beyond the history of the profession it briefly investigates the major processes of economic history and legislation, because without their examination, the significance of the professional information cannot be properly evaluated. The works of *Miranti* (1993) presenting different schools and the research methodological ideas of *Barbu, Facane, Popa* (2010) continue to be an important methodological pillar in the course of research. The outstanding professional issues of the era and the answers given to them are based on the major literature of the period.

E-mail address: borbely.katalin@sze.hu

THE EVENTS AND LEGISLATION INFLUENCING THE HUNGARIAN ECONOMY

The historical and economic events in Hungary were closely linked to the events taking place on the continent and in the world. Until the First World War the country was marked by 'happy peacetimes', a term appropriately describing the era. The military-economic measures introduced with the outbreak of the war and the mostly uncovered issue of paper money had, however, led to a strong inflation by the last year of the war. The overprinting of the korona in 1920 restrained inflation only temporarily. The effect of war bonds issued multiple times was present in the statements until at least the middle of the twenties due to the difficulties relating to the subscription and valuation of war bonds. Under the post-war peace treaties Hungary lost a significant part of its territory and population, thus, the structure of the economy and the infrastructure serving it also changed significantly, which made the activity of the economic operators more difficult. The country clearly became foreign trade oriented, which was synonymous with a great sensitivity to economic trends. The restitution after the First World War imposed a serious burden on the country. Based on the reconstruction proposal of the League of Nations the resolution took place between 1924 and 1926. As a result, the budgetary deficit significantly decreased, investments increased, and private credits were pouring into the country. Eventually, the process was closed by the introduction of pengő in 1927. In 1929 industrial production exceeded the rate before the war. By this time, Hungary had become the most indebted country in Central and Eastern Europe. Immediately thereafter, the companies suffered from the disadvantageous effects of the Great

Depression. The couple of years following the crisis were marked by increasing public debts and slow growth until the introduction of the Győri Programme. The armament programme of a billion-pengő fund launched in 1938, which was based on a higher wealth tax rate and state credit, started an economic upturn in the industrial production lasting until the middle of the war. However, from 1941 central materials management concerning several sectors, as well as some military economic measures relating to agricultural products and manufactured articles were introduced. After the end of the war the country was obliged to pay a compensation of 300 million dollars within a six-year period (Draskóczy et al., 2003). The international events happened in 1947, the start of the cold war and the nationalisation in the following two years set the Hungarian economy on a different path for long.

Apart from the tax laws, there was only one important legal regulation until 1925, the Trade Act (Act XXXVII of 1875), which set out some general rules for companies. The act made according to the German model was a stable framework complemented by customary trade rules, judicial practice and customary law (Mezey, 2004).

Due to the new situation after the First World War and the aforesaid characteristics of the act, the Hungarian economic legislation faced a big challenge.

In his publication entitled 'Építő munka' (Constructive Work, 1920) Kuncz (1939, p. 4) described the situation as follows: *'The main legal source of our credit law is still the Trade Act adopted in 1875, which was prepared by people under the influence of the thoughts of individual liberalism (economic freedom) solely dominating the 1860's.'* The author unconditionally supported private property and freedom of contract, however, he outlined several urgent tasks in his publication entitled 'Neue

Richtungen im Ungarischen Aktienrecht' (1936) referring to the state intervention increasingly spreading all around the world:

- the (irresponsible) political power of big capital must be erased in order to ensure the safety of the operation of companies in the public interest;
- when doing so the law governing limited companies must be reformed, especially in terms of audit, the rights and obligations of the board of directors, the efficient protection of the minority and the employees;
- the reform of financial institutions must be carried out;
- the problem of large companies must be dealt with, and
- the development of the cooperative movement must be promoted (Kuncz, 1941, pp. 4-5).

It is particularly interesting what Kuncz thought of large companies, which, as a result of capital concentration, were no longer simply undertakings of private interest. He, therefore, considered the effective control of the state vital. One of the possible tools for this was nationalisation, but he suggested that it should be examined in each case whether the quality of the goods and services and the profitability of the company can be maintained or improved by the public company. He drew attention to the problems of the period associated with legal interpretation. Article 179 of the Trade Act permitted cartel contracts, however, the judicial practice of the time considered it null and void, referring to free competition.

The rules concerning limited companies were tightened by Decree no. 7000/1925 of the Ministry of Finance on the recovery of the authenticity of the traders' balance sheet. From a legislative point of view the decree occupied a special place in accounting regulation as the legislator was able to deviate from the

provisions of the Trade Act regardless of the hierarchy of legal rules. The so-called Pengő Balance Sheet Decree primarily regulated the issues relating to valuation, which resulted in it being of major importance in the era.

Act V of 1930 on limited liability companies (which had not existed beforehand) already provided for obligations concerning statements. This act is also remarkable because this was the first time in Hungarian law that the registered auditor appeared as a facultative body of the company¹ (Sárközy, 2005).

After the act on limited liability companies another tipping point occurred in economic history, and it determined the legislation of Hungary. Legislators were forced to pass new rules in order to handle the adverse effects of the Second World War and to combat hyperinflation, so various legal regulations were adopted about the preparation of company balance sheets (Zwierina, 1949). Decrees were created on forint balance sheet and the preparation thereof in 1946 and 1948.² Whereas the decree on the preparation of forint balance sheet set out that an inventory must be taken on the asset existing on 1 January 1947 to justify the opening balance sheet, according to the decree on opening balance sheet the assets must be shown at real value on the given date, and the liabilities must be stated at the real amount of the debt. The decree provided general and special valuation rules for this.

Balance sheet decree No. 5650/1948 adopted on the basis of legislative authorisation is of key importance as it repeals the provisions of the Trade Act and the acts on limited liability companies concerning balance sheet, and introduces new ones instead of them. Moreover, Act XXXVII of 1948 authorises the government not only to change the structure of the balance sheets of national companies but also to provide valuation rules that are different from those of the balance sheet decree.

THE KEY QUESTIONS OF ACCOUNTING REGULATION

Honvári (2006) calls the turn of the 19th-20th century the era of companies. This period was characterised by the mass production created during the second industrial revolution, behind which there was a rapid technological development and strong capital concentration. At the end of the 19th century, beginning of the 20th century the need arose for the standardisation of accounting settlements and the statements made therefrom. As mass production was created it became increasingly important for the cost price of a product to be reliably determined. By the end of the 19th century the two essential trends for cost and cost price calculation had been developed. In the Anglo-Saxon territory it was the standard cost calculation, in Germany it was project cost calculation (*Baricz*, 1997).

In these few decades the accounting profession in Central Europe set out in new directions partly due to the second industrial revolution and partly because of the critical events occurring. The expansion of industrial production and the change in the features of economy created business economics, which gave a radically new approach to the examination of corporate operation and with the chart of accounts, as accounting information system matching this purpose, exceeded the personal³ and materialist⁴ accounting theories in order to create a well-functioning standardised model (*Richard*, 1995).

Eugen Schmalenbach stands out among the experts of the era: his business accounting and the system relating thereto is closely linked to production. He placed special emphasis on the role of fixed costs independent from the activity, and he was the one who developed cost calculation. The basis of the distinction between business and financial accounting was

the creation of the term ‘calculated cost’ and the distinction between cost and expense.

The development of business economics and the endeavours of its representatives primarily aimed at the organisation of academic work and thus, the preparation of appropriate decisions. The creation of the chart of accounts was a key area of *Schmalenbach*’s work: its grandeur was that the standardised chart of accounts became extremely well usable in large industry, while it also created the basis of decentralisation (*Borbély, Lukács*, 2018).

After the Austro-Hungarian Compromise up to the introduction of planned economy the accounting regulation considered the German regulatory system as a prototype (*Borbély*, 2017). The fact that the professional standard of the period can be considered modern is mostly proved by the compliance of the recommended and applied (not required) procedures with the principles defined by the best foreign (primarily German) and Hungarian experts. The experts focused the most on two areas which were and still are important matters for accounting: namely the accounting and business organisation aspects of the organisation and the matters concerning the measurement of financial position.

Organisation and business economic accounting

Not only journal articles (e.g. *Valentiny, Novák*, 1929) but also separate volumes (e.g. *Erdély*, 1931; *Mészárovs, Szemenyei*, 1943) were published about organisation.

‘Organisation is nothing other than expediency. Organisation must be an arrangement that guarantees the achievement of the intended objectives with the smallest sacrifice. The sacrifices do not only concern the use of the material or the wage to be paid but also the flow of time, and they also reside in the use of the necessary time.’ (*Erdély*,

1931, p. 4). Erdély thinks that organisation is a tool for rational business management, in the course of which the economic entity attempts to economise, simplify and maintain its competitiveness. He considered the calculation based on accounting as a key task, and regarded timeliness as the most important feature in order to make informed decisions. He did not forget, however, that all these things (can) cause unemployment and result in conflicting interests between the employer and the employee. The idea of the author is remarkable, and in the age of robotisation it is as timely as ever. He considered organisation as the behavior of a continuously developing organisation, ensuring the adaptation of the company to its environment.

In his work Szemenyei (1943) considered the harmonisation of the calculation system and accounting as the most important task, and he thought that the primary tool for this was the development of the adequate 'account plan'. In his opinion in case of correct calculation 'the sum of the calculated results must correspond to the sum of the profit and loss account of the relevant period.' (Mészárovs, Szemenyei, 1943, p. 82) He considered the breakdown of 'the indirect or general costs' as a particularly difficult part of the calculation since as many of these as possible must be transformed into direct costs in order to guarantee as precise a calculation as possible. In his view it was an accounting task, which would be arguable at first reading based on the today's executive accounting knowledge if he did not mention that calculation classes relating to business organisation must be developed, the result of the calculation must be shown in the calculations book and the calculation is based on the adequate system of accounts (ibid 83, p. 95), as Schmalenbach also stated.

At this point it is worth mentioning that the work published in 1943 defined the term of cost in today's sense, contrary to Schrott

(1872) who mentioned expense, cost and expenditure with identical or almost identical content.

Erdély formulated the importance of calculation as follows: 'High competition requires the most precise calculation partly so that we can make offers at competitive prices, and on the other hand, so that we can watch to ensure that the use of operating assets pays back by way of correct calculation.' (Erdély, 1931, p. 91). He considered the 'short interval profit and loss statement' and the business economic statistics as important parts of organisation, closely connected to calculation. The preparation of a short interval profit and loss statement allows a kind of annual planning in terms of costs and revenues. The condition for rapid preparation is that by developing an adequate system of accounts reflecting the business processes the data can be processed fast, and, as a consequence, the changes can be tracked and comparisons with the previous periods and plans become possible.

In his article written in 1929 Sándor Novák emphasised the importance of pre-calculation and the fact that its correct preparation corresponds to a general work plan.

Thus, there cannot be any doubt that Hungarian accounting had an approach corresponding to the international researches and the requirements of modern corporate and accounting organisation in an environment which was much less regulated legally than it is today.

Balance sheet authenticity, measurement of financial position and hidden reserves

According to the definition given by Kuntner 'Bookkeeping (accounting) is the recording of business events in accordance with certain specific rules' (Kuntner, 1914, p. 8), where the business event changes the quantity or value of some

part of the property. In terms of bookkeeping Kuntner already mentioned the principle of completeness as well. In his work published ten years later he stated that ‘...*the subject of accounting is, therefore, the assets or certain parts of the assets and the changes occurring in them.*’ (Kuntner, 1924, p. 5)

The professional requirements of the period were quite laconic when it comes to general (accounting) principles. The principle of balance sheet authenticity and the principle of clarity, considered as the most important ones, were not requirements laid down by the legislators. The relevance and timeliness of the question raised was given by the fact that the requirement of providing a true and fair view was the most important expectation on the part of economic operators at that time as well, and there were requirements like today in connection with the assets not stated in the balance sheet, hidden reserves and the consistent and correct presentation of the measurement of the financial position.

Kuntner (1924, p. 137) himself asserted that the principles applied by the company when preparing the balance sheet are expressed in the balance sheet policy thereof. He emphasised the principle of completeness, reality, clarity and continuity. The same professional view was represented by *Mészárovs* and Szemenyei (1943, p. 280). Similarly to the German professional literature of the period, the Hungarian one also attributed special importance to the content of the published balance sheet. Kuntner, in his work cited above, listed several complications, including the balance sheets in which the specific items were aggregated so much that the stakeholders were not aware of the value of the different parts of property, they did not know whether the owners used the possibility of valuation applicable in the post-war economic situation, and they were not aware of the hidden (latent) reserves of the company. For example, at what

price the company recognized its stock. As a consequence, the effects of price changes were not known, and financial statements at a lower price compared to the market and/or purchase value could occur, which led to the formation of hidden reserves.

The balance sheet did not show to what extent the company benefitted from the applicable discounts, or, in other words, whether it showed the previously subscribed war-loans at a value higher than their denomination. This could not increase the dividend payment capacity, but the method of valuation remained hidden.⁵

The balance sheet did not reveal the hidden, i.e. latent reserves, which was principally explained by the dividend policy of the company. The most frequent manifestation of this was the devaluation of assets and the lack of capitalisation, that is, following the logics of the lowest asset value and the highest liability value, which, *mutatis mutandis*, led to the minimisation of profits. The cited work by Kuntner mentioned other cases of ‘balance sheet embellishment, balance sheet grooming’.

It is a reasonable question as to which stakeholders this constituted a problem for. The disclosure obligation of the period was more permissive than it is today. The balance sheet had to be disclosed by the company eight days prior to the general assembly, and those interested could also view it at the court. For example, in the case of *Kispesti Textilgyár Részvénytársaság* (Kispest Textile Factory Limited Company) the data of the opening and closing balance sheet for year 1925 were disclosed on 23 April 1926 for the general assembly held on 30 April. The so-called tax balance sheet was an exception. The balance sheet and the profit and loss statement had to be presented to the tax authority, otherwise, a fine was imposed on the company due to failure to pay duties.

The professional questions raised by Róbert Kuntner justified in themselves the creation of separate rules for the measurement of financial position. In 1925, as a result of hyperinflation, the conversion to pengő was regulated in Act XXXV of 1925 (on the determination of the value of pengő and associated provisions).

The annex to the act on the equilibrium of public finances (the so-called resolution act, i.e. Act IV of 1924) authorised the competent minister to take measures for the recovery of balance sheet authenticity, which could even deviate from the provisions of the Trade Act. However, it had to be done in a way that the changes relating to the past, arising from revaluation, should not be the bases of taxation. Decree no. 7000/1925 of the Ministry of Finance (Pengő Balance Sheet or Gold Balance Sheet Decree) set out the rules of the new valuation, considering the provisions relating to the conversion from korona to pengő.

With a dramatic tone, unusual for accounting literature, the foreword of Szende's work (1926) entitled 'The Pengő Balance Sheet' highlights the difficulties of the situation of the period and the necessity of changing the situation which lacks transparency for two reasons.

The difficult times of the past taught even the most optimistic person to downgrade their sanguine hopes. We are prepared to be disillusioned from our numerous illusions after throwing away the light paper veil, stripping to the skin, and being left with pengő. We are tired of the balance sheet lies, tired of darkness. Let there be clarity. We wish to see and know what the zeros have to hide behind them. Whether there is anything behind them at all: The strong resist, the weak disappear. The economics must deal with the given situation. The strong will live, and all must be done for the weak to survive, but the therapy can only be used if the diagnosis is certain. For a patient who hides their illness

from the doctor – there is no remedy. Let there be balance sheet clarity!' (Szende, 1926, p. III.)

Decree no. 7000/1925 of the Ministry of Finance set out that the companies must prepare opening inventories and an opening balance sheet on that basis for year 1925. The Decree made it possible to state the opening assets either in korona or pengő, although the statement of the pengő value only became mandatory later (as of 1 January 1927) according to the law. It set out who, on which date and at what value, and how must draft the balance sheet. Its effect extended to all traders (entrepreneurs) subject to keep accounts, but did not apply to, for example, retailers, tavern keepers and the Central Bank of Hungary.

The Decree required limited companies to state a minimum net asset value of 50,000 pengő, and limited companies of a local nature to state a net asset value of 10,000 pengő (declared by the minister of finance) (until 30 April 1926). The net asset value is the difference of assets and liabilities, excluding equity, which must be determined based on the opening balance sheet, then the difference must be settled by increasing or perhaps decreasing the registered capital.

The provision that the inventory and the balance sheet were to be fully made based on the new valuation was extremely important, so the principle of 'balance sheet continuity' did not apply, except in case of private insurance companies. This fact in practice meant a new business opening when doubtful receivables could be shown at a likely value, and irrecoverable receivables were to be written down. Assets were to be shown at up to the value on the date of the opening balance sheet (besides the possible formation of depreciation reserve base), while the items of liabilities for the same date had to be shown at least at the value according to the contracts in place and the effective legal regulations. Pension reserves could also be entered on the liabilities side,

which fully or partially covered the pension liabilities. According to Szende this evaluation made hidden provisioning possible as it did not determine a lower limit for the valuation of assets (Borbély 2018).

Szende approved of the pengő balance sheet decree only giving principles to the private economy and the state not intervening, because he thought that the goal was to recover balance sheet authenticity which had characterised the period before 1914. At the same time, he stated that: *'An absolute balance sheet authenticity does not exist... Balance sheet policy is 'policy' and as such it is the fight of conviction with the realities: compromise with the actual situation. The thesis of ideal balance sheet and the antithesis of compromises will give rise to the synthesis of the 'real' balance sheet of a proper trader.'* (Szende, 1926, pp. 12-13) However, he also pointed out how the idea described applies in case of different corporate forms. While only one interest applies in case of individual companies, more do in case of partnerships. He mentioned as an example the valuation of the stock, where the interest of the company conflicts with that of the owners. Therefore, neither the lowest value nor the highest value is likely to be acceptable.

Decree no. 7000/1925 gave specific requirements for parts of the property on the assets side and on the liabilities side.

The transition to pengő actually revealed the truth, as Szende (1926) had said, and it became clear what the zeros were hiding. However, the valuation still had points to which the experts drew attention by way of emphasis. According to Béla László (1929) hidden reserves are parts of the net asset value which are not shown by the balance sheet and serve to be used for concealing or decreasing the losses of the company without the size or resource of the use becoming known to the public. The main purpose of this is to ensure that the whole capital structure will

not be known to the competitors, because the company's freedom of action (may) narrow(s) down, but the appropriate ratio of borrowed capital and own capital must be kept for both the investors and the creditors. Therefore, the 'invisible' balancing of a part of the losses can be more effective. However, the hidden reserves (may) influence the dividend policy of the company. Last but not least, we have to mention the potential tax advantages (at the time of the publication of the article hidden reserves were taxed by the corporate tax act, but at the time of the Second World War they were not yet). In summary: *'In terms of the organisation of hidden reserves, the companies, therefore, can set different objectives.'* (László 1929, p. 64) However, László emphasised that in case of this provision efforts must be made so that it will not be a resting capital.

In his study the author mentions that hidden reserves played a key role in the mitigation of the adverse effects of the First World War, because the provisioning of a significant part of the inflation gains could serve to compensate for the foreseeable losses of times of deflation. In support of this statement he cited Ödön Kuncz discussing balance sheet authenticity: *'The miracle cure which preserved our real companies through the dangers of the world war, the collapse, inflation and perhaps valorisation was hidden reserves.'* (László 1929, p. 68)

The most frequent cases of hidden reserves were: not including the assets or stating them at a lower value, including fictional liabilities or stating liabilities at a higher value (than the actual ones). The chapter of Sándor Erdély's work entitled Organisation (1931) concerning balance sheet and profit and loss statement consisted of the presentation of the content of property parts, profit factors and the rules relating to their valuation. In his opinion *'...it is the task of the balance sheet to shed light on the wealth and to show it truthfully.'* (Erdély, 1931, p. 14) Concerning

the preparation of balance sheets the author identified the professional fields which clarify the connection between economic practice and the information generated in accounting. These are: the importance and management of liquidity and working capital; the underlying information of assets stated at net value in the balance sheet; and finally, he presented the balance sheet as the mirror of the company's 'financing' (Erdély, 1931, p. 42). He stated that the acts on commercial and limited liability companies, neglecting the lower limit of valuation, provide its upper limit, while the tax acts provide the lower one. He, therefore, concluded that the *'tax balance sheets are dominated by the principles of authenticity and truth, commercial balance sheets are dominated by arbitrariness.'* (Erdély, 1931, p. 21) The two mentioned acts, therefore, aimed to ensure that there are no more assets and profits in the balance sheets than the reality, while the tax act did just the contrary: it did not permit to state less than the realised profit.

Section 28 and 199 of the Trade Act set out that the assets and receivables must be shown at cost in the balance sheet, however, valuation is mandatory on the last day of the financial year. However, based on section 57 of the act on limited liability companies the non-realised gains were not allowed to be stated. Erdély pointed out that both acts left open the question as to *'whether a relative part of general business costs can be accrued to the purchase or production price during valuation'* (Erdély, 1931, p. 25). With regard to receivables he stated that the doubtful receivables must be included in the balance sheet according to their likely value, the irrecoverable receivables must be written down, while the pending receivables must be shown. He underlined that *'It cannot be allowed that the debtors and the creditors charge against each other in the balance sheet and that they only adjust the balance.'* (Erdély, 1931, p. 34)

He stated about the liabilities side (charges) of the balance sheet that it is made suitable to enter hidden reserves by the fact that unreal debts can be created which decrease the year-end profits. Its parts are: equity and borrowed capital (or net asset value and liabilities).

He specifically mentioned the temporary items which correspond to the accruals in the modern sense.

Erdély highlighted that in practice we can often see balance sheets containing net values, which therefore, do not reveal the original cost values and write-offs and whether the legal requirements were complied with. He formulated the rules on balance sheet preparation, among which he highlighted balance sheet continuity, that is, the form and articulation of the balance sheet must be unchanged, which allows the continuity of the valuation to be maintained.

① The balance sheet must comply with the lawful formal and material requirements.

② It must be true and justified by supporting documents.

③ It must be prepared according to established principles so that it can be compared to the balance sheets of the past.

④ The valuation must be based on the same rules, and the write-offs must also be carried out according to established principles.

⑤ The profit and loss statement (with gross approach) must be detailed.

He stated that the difference of commercial and tax balance sheets is detrimental to fair view due to the formation and use of hidden reserves. The appropriate legal harmonisation of these would simplify both the preparation of balance sheets and the audit (Erdély, 1931, p. 61-63).

The balance sheet article of Act V of 1930 made the application of a profit and loss account compulsory, although it did not specify its mandatory content. By doing so it indirectly provided for the application of

double-entry bookkeeping to all those who were subject to this act.

In his work Kuntner (1943) discussed in a separate chapter the so-called balance sheet delicts⁶ having two possible cases: the obscuring and the falsification of the balance sheet. The obscuring of the balance sheet does not change the economic result, but the balance sheet drawn up conceals, hides, obscures the true situation, that is, it does not meet the requirements of (today's) principle of materiality. He mentioned as an example the misleading name of general ledger accounts, the contrast between debtors and creditors (which breaches the principle of gross settlement), but he also included the apparent business deals made in order to change the balance sheet structure. He also considered the real content of the profit and loss account important, although the Trade Act did not render it compulsory.

Mészárovcics and Szemenyei (1943) found it obvious that there is no valuation regulation which would serve all the interests and meet all the needs at the same time (Mészárovcics, Szemenyei, 1943, p. 111). They went further when defining profit and loss statements: by referring to the German (limited company) regulation and emphasising the gross approach they would consider the presentation of profit factors which are in fact used today to be satisfactory.

In his work entitled 'Balance Sheet Science and Balance Sheet Evaluation' (1949) *Jenő Zwierina* mentioned balance sheet completeness, balance sheet clarity, balance sheet reality, balance sheet consistency (which means the consistency of valuation and arrangement) and balance sheet continuity as the principles of balance sheet drafting, which means that the financial situation must always be estimated based on the same principles. Among the most common valuation procedures he presented the cases and methods

of valuations carried out at purchaser, supply, market or stock market price, production prime cost, book value, selling price, value in use and proceeds value.

The author pointed out the shortcomings of the laws mentioned above. He found that '*the value of equity is also nothing but a number*' (Zwierina, 1949, p. 91) as its value depends on the valuation of assets and liabilities, therefore, he was of the opinion that the real value can only be identified when the activity is ceased. Since the annual closing balance sheet is mainly a balance sheet stating the profits, the dynamic balance sheet is inappropriate to show the real exchange value of corporate assets, even if those drawing up the balance sheet use the hypothesis that the business will be managed as usual, that is, the principle of going concern is respected. It also follows the preference of profit statement that cautious (pessimistic) valuation is dominant and, as a consequence, it is assumed that the equity shows a lower value. He drew attention to the dangers of non-realised profit stated as a consequence of overvaluation, which, according to him, not only undermines private interests but also the interests of the public and those of the creditors.

In the course of his reflections, he pointed out in the brief review of the trade act, the gold balance sheet decree and the act on limited liability companies that the first, in line with the liberal economic order, only regulated generously and briefly, and therefore, the profit estimation was unreliable and secret provisioning was frequent, which significantly distorted the balance sheets (Zwierina, 1949, p. 92).

While Szende (1926) was enthusiastic about the balance sheet decree and considered it as a big step forward, after two decades of experience Zwierina (1949) stated that it was a step forward only in the sense that it determined the upper limit of the value

of assets and the lower limit of the value of liabilities.

'In terms of the estimation of financial situation this was the situation quite to the end of the Second World War. Then post-war inflation made all the balance sheets and other bookkeeping value data unusable. Therefore, when the forint was introduced, it had to be made sure that the companies estimate their assets from scratch with the new value unit, the new money value, i.e. the forint, and they make a balance sheet as the starting point of bookkeeping which is normally prepared when each new company is established.' (Zwierina, 1949, p. 92)

RESULTS AND CONCLUSIONS

Based on the review of the relevant literature of the time the two features previously identified concerning the accounting profession, namely modernity and timeliness, can be considered to be justified.

The features of accounting and the flow of accounting information in their modern sense were developed in the period examined. Apart from the difference between the tools used then and today (digital), an increasing volume of economic information had to be processed as accurately and as quickly as possible because the response time of economic management to external impacts decreased significantly. The managers of companies had to make more and

more complex decisions, in relatively short time.

Of course, the questions of the measurement of financial position were not new. However, the members of the profession placed a particular emphasis on accounting principles and, through this, the check of balance sheet authenticity. The importance of these still has not decreased even slightly. Whether we rely on the valuation requirements of the effective Hungarian accounting act or the valuation methods required by the international financial statement standards⁷, the knowledge of which is an indispensable criterion for carrying out professional work at an appropriate standard, their central question is the full compliance with the basic requirements of the valuation of each part of property and those relating to statements (true and fair view,⁸ fair presentation⁹). This also meets the expectation of the period concerning balance sheet authenticity, and it is incompatible with the formation and use of hidden reserves. When examining the economic environment of the period rapid change is clear, which required especially the stability of valuation. As previously noted, the economic legislation of the first half of the last century contained a lot fewer requirements and restrictions than the currently effective accounting act. Considering the other environmental factors, the detailed comparison of these, however, goes beyond the framework of this study.

NOTES

¹ Audits were regulated by Decree No. 450000/1931 of the Ministry of Justice.

² Decree No. 24.700/1946 of the Prime Minister preparing the forint balance sheet, on the business inventory to be prepared as from 1 January 1947;

Forint Balance Sheet Decree No. 1790/1947 of the Prime Minister on the balance sheet to be made as from 1 January 1947; Balance Sheet Decree No. 5650/1948 of the Government

³ Double-entry theory impersonating the invoices.

It is linked to the theory of Pacioli (the one who gives, claims, the one who receives, owes).

- ⁴ Triple entry theory which typically departed from the connection between assets = liabilities + equity.
- ⁵ Decree No. 430/1922 of the Prime Minister permitted the statement of the gold and foreign currency debts incurred before the end of the war at a value lower than the market value of the time, or maybe at peace value, however, this was subject to notification requirement. This decree concerned the debts and receivables against the natural and legal persons under the jurisdiction of hostile states, incurred before or during the war and expired before the ratification of the peace treaty, 26 July 1921, and they had to be settled converted into the exchange rate before the war,

in the currency specified ('valorised'), which was a heavy burden on the companies in the context of the period's inflation.

- ⁶ 'So we are facing a balance sheet delict when the existing requirements of the commercial and tax law in terms of valuation and the establishment of balance sheets are breached' (op. cit. p. 119)
- ⁷ L. http://njt.hu/cgi_bin/njt_doc.cgi?docid=49554.357202 és <https://www.ifrs.org/issued-standards/list-of-standards/>
- ⁸ Act C of 2000 on accounting, preamble http://njt.hu/cgi_bin/njt_doc.cgi?docid=49554.357202
- ⁹ Framework, Chapter 2. <https://www.iasplus.com/en/standards/other/framework>

REFERENCES

- BARITZ, R. (1997). A magyar számvitel a nemzetközi szabályozások tükrében. (Hungarian Accounting in the Light of International Regulations.) *Számvitel és Könyvvizsgálat (Accounting and Auditing)*, (39), 10, pp. 410-416
- BARBU, E., FARCANE, N., POPA, A. (2010). Looking for an Accounting Identity. The Case of Romania during the 20th Century, http://halshs.archives-ouvertes.fr/docs/00/53/47/41/PDF/cr_2010_03_E2.pdf
- BORBÉLY, K. (2017). Számvitel a kiegyezés és a rendszerváltozás idején (Accounting During the Compromise and the Change of Regime), *Pénzügyi Szemle / Public Finance Quarterly* 62:(1), 84-95./pp. 88-100
- BORBÉLY, K. (2018). 'Legyen mérleg-világosság!' (Let There Be Balance Sheet Clarity!). In: Reisinger, A., Happ, É., Ivancsóné, Horváth, Zs., László Buics (ed.) 'Sport – Gazdaság – Turizmus' (Sport – Economy – Tourism): The volume of the Gyula Kautz Memorial Conference held on 8 June 2017 in Győr, Hungary, Széchenyi István University, published in electronic format (2018), Paper: Borbely, p. 7
- BORBÉLY, K., LUKÁCS, L. I. (2018). Schmalenbach munkássága és hatása a magyar számvitelre (The Work of Schmalenbach and his Impact on Hungarian Accounting) *Controller Info*, vol. VI Issue 1, pp. 21-27
- DRASKÓCZI, I., BÚZA, J., KAPOSI, Z., KÖVÉR, Gy., HONVÁRI, J. (ed.) (2003). *Magyarország gazdaságtörténete a honfoglalástól a 20. század közepéig. (The Economic History of Hungary from the Hungarian Conquest to the Middle of the 20th Century.)* Aula Publishing House, Budapest
- ERDÉLY, S. (1931). *Organizáció (Organisation)*, The Publishing Company of Károly Grill, Budapest

- HONVÁRI, J. (2006). *Európa gazdaságtörténete (The Economic History of Europe)* sponsored by HEFOP 3.3.1-P-2004-09-0102/1.0 tender, <https://doksi.hu/get.php?lid=15525>
- KUNCZ, Ö. (1941). *Küzdelem a gazdasági jogért (Fight for the Economic Law)* (vol. II). Hungarian Royal Press, Budapest
- KUNTNER, R. (1914). *Könyvvitelten (Accounting Textbook)*, Athenaeum, Budapest
- KUNTNER, R. (1924). *Könyvvitelten III. rész Társaságok számvitele. (Accounting Textbook, part III, The Accounting of Companies) Különös ügyletek (Special Transactions)*. Athenaeum, Budapest
- KUNTNER, R. (1943). *Ujkori kereskedelmi és ipari könyvvitel (Modern-Day Commercial and Industrial Accounting)* Dunántúl University of Pécs Publishing House and Press Company Limited by Shares, Pécs
- LÁSZLÓ, B. (1929). A titkos tartalékok (Hidden Reserves), *Hungarian Accounting Review*, vol. XX, 1929/3-4, pp. 62-73
- MÉSZÁROVITS, T., SZEMENYEI, J. (1943). *A könyvvitel és az organizáció kislexikona (The Desk Encyclopedia of Accounting and Organisation)* Renaissance Publication, Budapest
- MIRANTI, P. J. (1993). Patterns of Analysis in Accounting History. *Business and Economic History*, 1 (22), pp. 114-126, <http://www.thebhc.org/sites/default/files/beh/BEHprint/v022n1/p0114-p0126.pdf>
- NOVÁK, S. (1929). Az organizáció tárgya (The Subject of Organisation), *Magyar Könyvviteli Folyóirat / Hungarian Accounting Review*, vol. XX, 1929. issue 1-2, pp. 4-16, Budapest, Athenaeum
- RICHARD, J. (1995). The Evolution of Accounting Chart Models in Europe from 1900 to 1945. *The European Accounting Review*, (4),1, pp. 87-124
- SÁRKÖZY, T. (2005a). *A társasági és cégjog fejlődésmenete és stratégiai fejlesztési koncepciója. (The Progress and Strategic Development Concept of Company and Corporate Law.)* In: A rendszerváltozás gazdasági joga Sárközy Tamás (The Economic Law of the Change of Regime, Tamás Sárközy (ed.) 2005, MTA Social Research Centre, Budapest
- SCHROTT, J. (1872). *Az általános számvitelten kézikönyv (General Accounting Manual)* Károly Werfer Academic Printer, Košice
- SZENDE, P. P. (1926) *Pengő Balance Sheet Decree no. 7000/1925 P.M. on the recovery of the authenticity of pengő balance sheets.* Publishing Company of Károly Grill, Budapest
- VALENTINY, N. (1929). Az üzemi számadás összefoglalása a Gyártás-számla és az Eredmény-számla által. (Summary of Business Statement by Production Account and Profit Account) *Magyar Könyvviteli Folyóirat / Hungarian Accounting Review*, vol. XX, 1929. issue 1-2, pp. 17-25, Budapest, Athenaeum
- ZWIERINA, J. (1949). *Mérlegtan és mérleg bírálat. (Balance Sheet Science and Balance Sheet Evaluation)* Pantheon Irodalmi Intézet (Pantheon Literature Institute), Budapest
- Magyar jogtörténet (The History of Hungarian Law)* (2004). ed.: Mezey, B., Osiris, Budapest