

# Future Today

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## HOW ITALIANS TAUGHT NUMBERS TO SPEAK

It was summer and Emilio Bossi, a wine merchant from **Perugia** in Italy, was hard at work updating his business records. His start-up business was going well and the demand for the wines he offered far exceeded the quantities he could deliver. Whilst counting his cash he recognised that, although his funds had a considerable surplus, he would need at least twice the amount on hand for his next wine purchase. There were still plenty of receivables that were due to be paid in the next few weeks, but the wine producers always demanded an immediate payment in cash and Emilio's funds were not sufficient for this. For the first time in his life, he would have to borrow money. Reluctantly, he packed his trading book into a bag and set out to take a loan from the richest banker in town, Luigi Strozzi.

Luigi was an old school friend of Emilio's, but Emilio still had to wait for over an hour before he could talk to his friend. Luigi was happy to see him, but when Emilio expressed his wish, the cautious banker groaned softly and replied with a soft but firm tone: *"Emilio, it is wonderful that your business is going so well, **but as a banker I need to have a better understanding of your finances.** Please let me take a look at your trading book."*

Emilio had already reckoned with this and presented him with the large vellum-bound book. Luigi was an experienced banker but it surprised Emilio how quickly Luigi closed the books and said:

*"I do not fully understand what your numbers mean my friend, and I recognise that your wine sells well and you also seem to make a profit, but what about your assets? What kind of securities will I get in return for lending you money? Only if you can give me clear and comprehensive figures, will I lend you the money you ask for – and with pleasure."*

Emilio left the meeting confused. Since starting as a wine trader, he had kept his own books and even before that he had worked for many years for two merchants in Gubbio and Foligno, where he had first learned how to bookkeep. Each of these companies had their own system, and when Emilio came to start his business, he adapted what he had experienced with them and created his own methodology from them to best suit his business. On his way home, he pondered for a long time about how he would need to present his figures to the banker.

In the evening he went to see his friend Lorenzo who was the largest merchant for citrus fruit in town. A man like him would surely know what to do. But to Emilio's great astonishment Lorenzo interrupted very quickly. *"I know what you are about to say because I have been struggling with the same request from Luigi for years. I have no idea how to fulfill his requirements but my eldest son Filippo just returned from his merchant's apprenticeship in Venice, and he may have an answer for us."*

Filippo was called and felt proud that his father had sought his business advice for the first time. So, he listened intently to his father and Mr Bossi's explanations, and as he began to understand the problem, his face relaxed into a smile.

After his father had finished, Filippo thought for a moment before he answered: *"Well, the big Venetian trading houses frequently deal with this and similar problems. During the last years of my education, I studied their accounting systems carefully and I believe there is a way that will help both of you to convince Mr Strozzi"*.

The two senior men were astonished by Filippo's bold statement, but their interest was too great for them to question it.

So, Filippo continued:



**"Most merchants keep a simple ledger with all their income and expenses, so they know how much money they have taken in or spent. Venetian traders, on the other hand, use two ledgers or so called "accounts" for each transaction. This way, all amounts are recorded twice in two separate accounts. One account to record the purpose of the purchase (e.g., cost of goods) and a second account to know how this purchase impacted the cash."**

Emilio and Lorenzo listened intently and signaled to Filippo to continue. *"But the heart of this Venetian method, is the capital account, which, in contrast to simple bookkeeping, not only allows the merchant to keep track of current income and expenditure, but also provides them with information about their assets or debts at any time."*

The more enthusiastic Filippo became with his explanations, the more Emilio began to realise how simple and yet revolutionary this accounting method was. That very same evening, he instructed Filippo to compile his business figures the Venetian way. Just a few days later, he proudly presented the results to his astonished friend and banker Luigi.

Not only did the figures from Filippo prove that Emilio was much richer than he himself realised he also received the loan he had requested. And after Filippo took over the bookkeeping work permanently, Emilio was able to better monitor and plan his business, enabling him to steadily expand his trades. When Emilio died in 1513, he was even richer than his old friend Luigi.

The Venetian method of the 15th century, which for the first time recorded a transaction twice, became known as the **double-entry bookkeeping structure**. Until this day it remains the basis of all generally accepted accounting principles.

The new accounting method **enabled many other Italian trading and manufacturing**

**companies to make more rational and rapid decisions in a way that had not been systematically possible before.** And not least because of this, Italy developed into the most successful economic power of the late Middle Ages.

However, it was only after the Franciscan monk and mathematician **Luca Pacioli** (1447 - 1517) summarised these procedures in his 1494 published book "*Summa de Arthmetica geometrica proportione et proportionalita*", that more companies began to use the double-entry bookkeeping structure. There is no doubt that the arithmetical skills of the Italian accountants were a prerequisite for the successful development of family businesses, such as those of the **Medici from Florence** or the **Fuggers from Augsburg**, in the 15th century into highly complex international trading groups.



And thanks to Pacioli's book, this basic knowledge and know-how spread first over Italy, then to Europe and finally over the entire globe.

Even today, modern accounting with all its facets and pitfalls is for many of us still a book with many unknowns. This is why **we at Carey Zurich have a pool of experienced financial specialists who can assist you and your structure with simple or complex accounting, payroll or consolidation issues.** Our customers benefit not only from our knowledge, but also from having a trustworthy and reliable partner.

And what is your banker's name?



**Beat H. Haering**  
 **CAREY**

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