Bookkeeping in the Eighteenth Century: The Grand Journal and Grand Ledger of the Hudson's Bay Company*

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...while my ink lasted, I kept things very exact . . . very impartially like debtor and creditor, the comforts I enjoyed, against the miseries I suffered.

Daniel Dafoe, *Robinson Crusoe*

Company financial records have the potential to offer rich insights into social and economic history, but extracting the relevant information can be a daunting task. We may be reluctant to elevate accounting to the status of a language like Latin or Greek, or of a science like chemistry or even economics, but it is necessary to concede that basic literacy in the rules and procedures of bookkeeping is a prerequisite to interpreting a company's financial records. And if reading corporate reports in the twentieth century is a challenge—particularly if the company possesses a good accountant intent upon avoiding disclosure—the problems are compounded when it comes to reading business records from earlier periods.

Company journals and ledgers, moreover, are important historical artifacts in their own right. Accounting is a "highly-motivated" form of expression that reflects the social and economic history of the period: it is not a neutral device for reporting economic "facts," but a technology designed to influence and transform institutions and the environment in which they operate.[1] This encompasses a distinct vocabulary for converting physical into financial flows; for expressing organizational priorities and processes; for defining strategies of capital accumulation; and for distributing profit. As economic institutions have evolved, accounting practices have undergone significant changes, both in terms of form and content.

Overseas trading companies in the seventeenth and eighteenth centuries, such as the Hudson's Bay Company (HBC), played an important role in this transformation. These large, complex ventures were typically organized as joint-stock companies in order to mobilize the resources of a number of investors in an ongoing economic venture. Since the owners were removed from the daily operations of the enterprise, they demanded an accurate, concise

financial record upon which to judge the performance of management. In the process, eighteenth-century accounting provided a clearer articulation of the concepts of capital assets, liabilities, and profit.

This article examines the financial records of the HBC—found in the Provincial Archives of Manitoba, Hudson's Bay Company Archives (hereafter HBCA)[2]—in light of the evolution in accounting practices during the eighteenth century. A.J. Ray outlines how the account books of individual trading posts can be used to present a picture of a single "factory" managing its trade goods, provisions, stores, and workforce to generate a gain from trade, and he makes good use of these sources to construct a portrait of the minutiae of European-aboriginal trade at the Company's various posts and factories.[3] In contrast, the HBC's Grand Ledger and Grand Journal, designed to provide a summary of the Company's overall financial position, have been largely neglected. The purpose here is to outline the organization of the Grand Journal and Grand Ledger, to consider the information they convey, and to demonstrate their importance for historical research.

Double-Entry Bookkeeping and the Rise of Capitalism

English financial records from the eighteenth century display the gradual adoption of the practice of "double-entry" bookkeeping, the most significant innovation in modern accounting history. Developed by Italian merchants in the thirteenth century (and purportedly perfected by the Vatican),[4] double-entry is a system of arranging records of a firm's transactions, assets, and liabilities. It has two particular characteristics. First, it reflects the duality of financial transactions, simultaneously involving both a creditor and debtor: each transaction is recorded twice, as a credit in one ledger and as a debit in another. Second, the totality of the firm's or merchant's accounts must be in equilibrium; individual accounts may stand in a net credit or debit position, but total credit entries must equal total debit entries. "Balancing the books" thus provides a check on their accuracy.

The substantive importance of double-entry bookkeeping rests with the concept of "proprietorship." Robinson Crusoe (circa 1710) is the preeminent example of the relationship between the preoccupation with accounting and the rising bourgeois mentality: upon being shipwrecked, one of his first acts, and his constant preoccupation, was to take stock of his assets and liabilities.[5] More generally, A.C. Littleton traces the evolution of double-entry to the rise of capitalism and the shift from viewing property as a form of "wealth" for the purpose of consumption and ostentation, to "capital" that may yield a profitable return. As a system of arranging financial data, double entry is structured to facilitate the calculation of the owner's profit or loss on invested capital. Not until "wealth became capital striving to reproduce itself" did merchants require

a means of calculating the gain on investment; and "this was the fertile soil from which double entry grew."[6]

In fact, Werner Sombart, the German economic historian, asserts that "capitalism without double-entry bookkeeping is simply inconceivable." "Scientific accounting" transformed a host of heterogeneous assets—including tangible property such as buildings, machinery, inventories of goods, and financial holdings such as cash and long-term securities—into a single, quantitative expression. Reducing myriad specific commodities and various claims on income to a single number aided in the conceptualization of gain on return, and the transformation of commodities into money. This crystallized the objective of the firm, or in Sombart's words, facilitated the "rationalistic pursuit of unlimited profit."[7] Sombart's argument is qualified by evidence that many early double-entry account books made little effort to produce financial statements of net assets or profit and loss.[8] The form of double entry emerged in fairly complete form as early as the fourteenth century, but its substance—the derivation of capital and income calculations—evolved gradually over the following four centuries.[9]

Joint-stock companies, such as the HBC, played an important role in this transformation for two reasons. First, they were designed to harness sufficient capital to cope with the risk and scale of overseas ventures. The Russia Company, the Virginia Company, the East India Company, and the HBC were given, respectively, monopoly rights over lumber, tobacco, spices, and furs, in return for large initial investments.[10] Issuing stock entailed joint ownership, but not joint management, and the separation of ownership from management demanded improvements in financial reporting so that shareholders had sufficient confidence in the operation of the company, particularly in the wake of the South Sea "Bubble."

Second, unlike most business organizations of the early seventeenth century, which saw production and trade as a series of distinct "speculations" or "ventures," joint-stock companies evolved into continuous enterprises with a periodic flow of returns. They initially issued "terminal stock": each expedition required newly-subscribed capital, and all proceeds were divided upon its completion. The liquidation of all capital was seen as necessary for withdrawal from the company; however, this was not possible in practice, leaving "remains" of incomplete trading expeditions. The East India Company was the first to accept the principle of issuing non-terminal stock in 1657, with periodic valuation of stock (every three years) and transfer of shares permitted. Because of this emphasis upon a regular return upon permanent capital, rather than sporadic income from separate ventures, joint-stock companies were the catalyst for mechanisms to measure capital assets as distinct from annual income. To determine how much profit was available for dividend payments without impairing the continued or expanded operation of the company demanded a

clear distinction between capital (current and physical assets) and income (profit on capital). Moreover, shareholders needed to know the annual profit was being handled by management, either as retained earnings, reinvested, or paid out as dividends; they also needed assurance that annual dividends were being paid out of profit and not through a diminution of the capital stock.[11]

The financial reporting of the HBC reflects these trends. Established on a permanent basis in 1670, it hired its first accountant in 1674 for the purpose of "setting and stating several accounts." A "spirit of efficiency" accompanied the appointment of Sir Robert Clayton as Treasurer in 1679, and was strengthened with the gradual replacement of "gentry" shareholders by merchants and financiers.[12] Successive secretaries were "put into a method," but early bookkeeping practices are described as "haphazard."[13] Large, undifferentiated entries made it impossible to determine the source of expenditures. In 1684, for instance, £6,086 was debited to "sundry accounts" when total expenditures were no more than £7,000.[14] Similarly, the sale of stock in the Company was combined with fur returns, making it impossible to isolate the profitability of trading activities. As a consequence, the HBC declared a "magnificent" dividend of fifty per cent, but less than a year later it found itself short of funds and forced to borrow to outfit the next expedition to North America.[15] The London Committee forced the resignation of its secretary and spent the summer scrutinizing its account books in the hope of determining the true state of its finances.[16]

K.G. Davies provides a more critical assessment:

> In any discussion of seventeenth-century finance, certain general considerations have to be kept in mind. Despite important developments in banking and credit, financial knowledge was still rudimentary and financial policies (by later criteria) absurdly improvident. No balance sheets or profit and loss accounts of the HBC have survived and it is morally certain that none save the crudest were compiled. The Company never knew with any accuracy what it was worth. Nor were shortcomings in accounting the only hazard. In practical finance there was an almost total lack of provision for contingencies, the affairs of companies being conducted on boundlessly (and sometimes groundlessly) optimistic assumptions. No reserve fund was accumulated and none ever considered. Dividends were declared with little thought for the future and insufficient knowledge of the past; seldom can they be taken as accurate indications of a company's position or prospects. The Hudson's Bay Company (until 1688) revealed more, not less, prudence and financial acumen than its contemporaries, but it was nevertheless often short of ready cash. Its mistakes were the mistakes of its age. Those who governed its affairs, though they might know little of furs and the fur trade, knew as much of finance as it was then ordinarily possible to know; when we consider the litter of failures with which the early history of joint-stock companies is strewn, we may conclude that they still did not know enough.[17]

The lack of systematic financial reporting also left the London Committee unduly reliant upon its secretary's fidelity. Its vulnerability in this regard was evident when Omsiphorous Alpin, who had early sent a coded letter to the French court offering to sell the Company's secrets, absconded with over £400 in 1687.[18] It was not until 1690 that any attempt was made to "balance the books" for presentation to the General Court; not until its increased prosperity and enlarged investments after 1730 did more precise reporting of transactions occur. From 1746 onwards, "balance books" were generated semi-annually, providing for regular scrutiny of assets and liabilities by the London Committee.

The Form of Entries in the HBC's Grand Journal and Grand Ledger

The financial documents of the HBC which have survived from before 1870 are not unlike those found in many business archives.[19] Among the papers of the London office (series A) can be found detailed records of Company employees (series A.16, A.30 through A.36, and A.47); stock ownership, transfers, and dividend payments (series A.40 through A.43); the ordering, purchasing, warehousing, and shipment of merchandise, including the associated accounts payable and receivable (series A.21, A.24 through A.27, and A.56 through A.60); and furs received from Hudson Bay and sold in London (series A.28, and A.48 through A.55). These particulars of the Company's business have broad applications to studies of both North American and European history.[20]

A summary of the various transactions of the Company consists of two parts: the Grand Journal (series A.15) and Grand Ledger (series A.14). Fortunately, both series remain intact from the year 1676 onwards. Their purpose was to convert a non-technical statement of a transaction into a technically-formed, statistical record. Both are characteristic of double-entry bookkeeping, since they emphasize the inevitable duality of a transaction, involving a creditor and a debtor. Together they permit the reconstruction of an overall picture of the Company's finances.

The structure of HBC financial reporting in 1740 serves as a useful illustration of the quality of the information conveyed to shareholders, and the capacity of the Company to calculate its annual income and net worth.

The Grand Journal

The Grand Journal provided a detailed summary record of transactions arranged chronologically (on a monthly basis). Transactions recorded in the Secretary's day books would be rearranged and classified prior to posting to the Grand Ledger.

The fiscal year was dictated by the shipping season, extending from May to

April of the subsequent year. Some typical entries from the 1740 Grand Journal (May 1739-April 1740) are reproduced in **Figure One**. Each entry is an abbreviated expression of thought that maintains the symmetry of balancing a credit and debit. Each transaction is recorded in the form "To A (debtor) from B (creditor). For instance, the first entry in **Figure One** concerns the transfer of three rolls of Brazil Tobacco (creditor) to the Factory at Albany River Fort (debtor) during the month of April 1740. The numbers in the left-hand column cross list the entry to the individual accounts in the Grand Ledger (59 for Albany Factory and 48 for Brazil Tobacco); there is a narrative description of the transaction, and a summary of the value in the right-hand column. Similarly, the second entry provides a detailed breakdown of the expenditures during the month by Captain William Coats (creditor, cross referenced to ledger number 23), debited to the Ship Mary (ledger number 61).

The Grand Journal thus had a limited purpose. It served to systematize the HBC's record-keeping, reorganizing and classifying information from day books into suitable categories that reflected important aspects of the Company's operations. This was an intermediate, and not indispensable, step prior to posting transactions to the relevant part of the Grand Ledger.

The Grand Ledger

The Grand Ledger contains a series of interlocking, individual ledgers—or statement of assets and liabilities—for particular goods, merchants, or commodities. The evolution of double-entry bookkeeping is apparent in the transformation of ledger entries away from narrative entries into a highly-technical, tabular form. Each individual ledger was contained on the facing sides of a folio. On the verso side of the first leaf is printed the title of the account, and the heading "Dr." above the individual debit entries; on the recto side of the subsequent leaf appears the offsetting title "Per Contra," and credit entries arranged below the heading "Cr." (One can thus appreciate the frustration of the researcher utilizing a microfilm copy of the ledger which places the opposing side of the folio on consecutive frames.) Entries are arranged chronologically, with extra line spacing used to separate fiscal years. When room on the folio was exhausted, the account was transferred to the first blank folio found in the ledger book.

The Grand Ledger for the year 1740 contains forty-five separate ledgers for distinctive aspects of the Company's activities. They can be loosely classified as:

- *expenses* for merchandise-in-general, Brazil Tobacco, Apprentices, Servants in Hudson Bay, Customs, and Account of Charges;
- *accounts payable* to merchants (such as Lane and Russell), Company servants (John Bricker), and unpaid dividends;
- *cash advances* to Ship Captains George Spurrell, Christopher Middleton, and William Coats, and to Thomas Burrows, secretary;

Figure One: HBC Grand Journal, Anno 1740

	April 30 1740		
59	Factory at Albany Fort Dr to Brazil Tobacco £107:1:9 for 3 Rolls		
48	of Tobacco Wt 1000 lbs. neat		107/1/9
61	Ship Mary Dr to Captain William Coats £280:15:7 for his		
23	Disbursements in procuring Seamen and getting Protections	49:15:–	
	for his Wages from 19th May 1739 to the 19th May 1740 being		
	twelve months at £6 p month	72:–:–	
	for a Gratuity for going to and from Hudson's Bay last year	50:–:–	280/15/7
	for Ditto for Services performed since his return	5:5:–	
	for fresh provisions for the present voyage	20:–:–	
	for his Disbursements from the 13th of May 1739 to the 22nd of		
	April 1740 Inclusive	83:15:7	
61	Ship Mary £209:17:7 Paid as follows the 5th Instant		
	to the Officers and Seamen belonging to the Said Ship in full		
	of River Pay and one month advance as p. acct		
	and Receipt	202:16:7	209:17:7
	to Boatswain and Ships Company as per Dr Acct	1:1	
	the 10th Instant to John Garret for Piloting the Said Ship from		
	the Pool to Yarmouth	6:–:–	

Source: HBCA A15/10, folio 201, 205.

- *revenues* from the Account of Sales, Furs, etc from Hudson Bay, Account of Debentures for drawback of customs, and share transfers;
- *financial investments by the Company*: stock in name of Thomas Bird, East India bonds in name of Thomas Knapp, Old South Sea Annuity Stock, and Lease of Company house;
- *outstanding loans to individuals*: Sir Bibye Lake & Atwill Lake, Sir Bibye Lake, William Atwill & Co., William Elderton, Thomas Bird, deceased, Assignees of S. Evans, and Dubious Debts;
- *operating branches*: Factories at Prince of Wales, York, Albany, and Moose River, the Esquemay Trade, and the Ships Hudson Bay, Mary, and Sea Horse;
- *physical assets*, or the imputed value of Forts and Factories; and
- *summary accounts*: Profit and Loss, Balance, and Stock (or owner's equity in the Company).

Most of these accounts are straightforward. Among expenses, "merchandise-in-general" kept track of changes in inventories of trade goods. Purchases were recorded as credits and debited to the "Cash" ledger; when merchandise was shipped to Hudson Bay, it was first credited to the ship carrying the freight and then to the particular factory, and eventually debited to "merchandise-in-general." Changes in inventories in the London warehouse would be reflected in the account's end-of-the-year balance. The same applied for "Brazil Tobacco," which merited a separate account since it was purchased periodically in Lisbon. Other expenses are also uncomplicated. Wages to apprentices, servants, and seamen would be debited to the cash account and credited to the appropriate ship or factory.

Revenues were accounted for in two stages. Upon the shipment of furs from Albany, Moose, Prince of Wales, or York Factories, the Factory was credited with a nominally assigned value. When the subsequent sale of furs in London yielded more than this nominal value, the Factory was further credited with the difference and debited to the "Sale of Furs Account."

The Company was also an active financial investor, holding major blocks of securities in the East India Company and the ill-fated South Sea Company. It also extended significant loans to Sir Bibye Lake and other members of the London Committee. Loans extended and securities held by the Company were recorded as an asset.

Ledgers for the operating branches of the Company—Ships, Factories, and the Esquemay Trade—are slightly more complex. **Figure Two** reproduces the ledger for the Ship Mary in 1740. The credit side includes entries for the value of merchandise delivered; freight charges assigned to Albany and Moose Factories; and "to balance," or the value of the ship, its inventories, and its prepaid expenses at the end of the year. The debit side includes "to balance," or the nominal value of the ship (£800), prepaid expenses (wages), and inventories (merchandise-in-general and provisions); additional wages paid during the year; the sundry expenses borne by Captain William Coats; and an entry for "profit and loss-freight." The latter is the residual amount, or the difference between all debits and other credits, representing the estimated net return on shipping services.

This information can be interpreted as follows. At the beginning of the year, the Ship Mary, its inventory of goods and provisions, and pre-paid expenses were valued at £1,399 (carried over from the 1739 balance ledger of the debit side). It then departed England and delivered freight to Albany and Moose Factories. The value of the merchandise and stores, plus the imputed value of shipping services was estimated at £1,200 (stores and freight on the credit side). After deducting additional expenses accrued for the current shipping year (wages and sundry expenditures by Captain William Coats), the net value of shipping services was estimated at £270 and assigned to the "profit and loss"

Figure Two: HBC Grand Ledger, Ship Mary, Anno 1740

Debit			Per Contra Credit		
To balance			Albany River-freight		750/–/–
–ship	800/–/–		Moose River-freight	450/–/–	
–provisions	10/–/–		Albany River-stores		2/7/–
–wages	89/13/3		Moose River-stores		5/7/–
–merchandise	499/11/8		Balance		
	1,399/4/11	1,399/4/11	–ship	800/–/–	
Wages		101/6/9	–provisions	20/–/–	
Wages & Charges		13/12/10	–protection	49/15/–	
Wages, J. Fowler		11/12/8	–wages	221/15/7	
William Coats, sundry		280/15/7	–pass	–/15/–	
Mediterranean pass		5/15/–	–merchandise	1,096/8/7	
Wages		209/17/7		2,188/14/2	2,188/14/2
Profit & Loss-freight		270/16/3			3,396/8/2
Wages, William Coats		6/18/–			
Merchandise-in-goods		1,096/8/7			
		3,396/8/2			

Source: HBCA A14/10, f. 61

Figure Three: HBC Grand Ledger, Factory at Moose River, Anno 1740

Factory at Moose River Fort Dr		Per Contra, Cr.	
To balance		Furs, 1739	1,811/6/–
–provisions and stores remaining and sent	938/11/2	Goods taken-up by servants	80/5/6
Customs	217/11/3	Customs drawback	13/10/–
Ship Mary, freight	450/–/–	Furs	303/9/9
Wages	462/5/8	Cutt beaver	8/1/6
Trappings	15/6/8	Balance	
Use of Surgeon's equipment	1/1/–	–provisions, stores, goods remaining and sent	1,105/5/1
Ship Mary, stores	5/7/–		3,322/7/10
Merchandise-in-general	634/16/3		
Charges	21/3/5		
Profit & Loss	576/5/3		
	3,322/7/10		

Source: HBCA A14/10, f.60.

ledger. Finally, the value of the ship and all pre-paid expenses at the end of the year were valued at £1,096 and assigned to the "balance" ledger. The Ship Mary ledger, therefore, has two important entries that "closed" the account and facilitated a summary of the HBC's financial position: a) an estimated profit of £270 on shipping services carried to the "Profit and Loss" account; and b) estimated net assets of £1,096 carried over to the balance ledger at year's end.

The ledger for the "Factory at Moose River," reproduced in **Figure Three**, parallels the ledger for the Ship Mary. The only significant difference is that

ledgers for operations at the Bay were "closed" on an annual basis in July, when the ship returned to England. At the beginning of the fiscal year, it had inventories of trade goods and provisions valued at £938 debited to the Balance ledger of 1739. Its expenses included customs duties, freight charges, wages, men's trappings, use of the Surgeon's equipment, stores taken from the Ship Mary, trade goods, and miscellaneous charges. Its revenues on the right-hand side were from furs shipped to the Bay in 1739 (assigned an estimated value of £1,811), and a second entry for Furs (and Cutt Beaver) which represented the additional value of furs from Moose River after their actual sale in London; goods sold to servants; and the drawback on customs duties. Its remaining inventories of goods, stores, and provisions were credited to the balance ledger. The entry for profit and loss on the left-hand side is the residual difference between total credits and total debits, or the estimated net profit of the Factory.

How the HBC treated transactions between various branches of its operations is noteworthy. An imputation was made for the value of the services provided by its ships. Each factory was charged with the cost of freight outbound from London and delivered by the Company's ships, such that "Freight £450" appears as a credit in the ledger of the Ship Mary and a debit on the ledger of the Factory at Moose River Fort. No charges were made for the inbound voyage to London.

These separate ledger accounts are interlocking in the sense that each transaction is recorded twice, as equal but opposite entries. For instance, "merchandise-in-general" delivered from the Ship Mary to Moose River appears as a credit in the "Ship Mary" account, and as a debit in the "Moose River" account. The chief virtue of this double-entry system is that the entire system of accounts must always remain in balance: total debit entries must equal total credit entries. "Closing" or "balancing" the books each year, allowed not only the detection of errors in arithmetic, but the production of summary calculations of the profitability and net worth of the enterprise.

Summary Financial Statements: The Profit-and-Loss and Balance Ledgers

The HBC "closed" the account books annually in order to produce two summary financial statements (contained within the Grand Ledger): a) all individual accounts standing in a net profit or loss position were transferred to the "Profit-and-Loss" Ledger to obtain the annual income for the year; and b) all individual ledger accounts reporting assets and liabilities at year's end were reported in the "Balance" Ledger to derive the value of its net assets, or net worth.

The Profit-and-Loss Ledger

At the end of each year, each individual ledger was brought into balance by

Figure Four: HBC Profit-and-Loss Ledger, Anno 1740

Debit		Credit	
to dividend 1740 at 10%	10,395/–/–	by assign. of mortgage	5/–/–
to Ship Sea Horse	13/7/–	by Thomas Knapp, by gain	4/14/11
to Lease, Company House	65/–/–	by Thomas Hunter	1/–/–
to merchandise-in-goods	1/19/10	by Return of Provisions-ships	5/11/9
to Apprentices	12/15/10	by B. Lake, interest	65/–/–
to Account of Charges	1,967/–/5	by Lake & Atwill, interest	60/–/–
to stock to close	6,510/18/10	by Hudson Bay, freight	157/–/4
	18,966/1/11	by Ship Mary, freight	270/16/3
		by Elderton, interest	24/–/–
		by HBC Stock in trust	78/2/5
		by East India, dividend	105/–/–
		by Old South Sea, dividend	40/–/–
		by Esquemay Trade, profit	39/9/9
		by East India bond	397/10/–
		by Debentures, drawback	–/1/2
		by Transfers	1/5/11
		by Moose River	576/5/3
		by Albany River	4,172/10/11
		by York Factory	7,562/1/1
		by Prince of Wales	5,400/12/2
			18,966/1/11

Source: HBCA A.14/10, folio 54.

recording any excess or shortfall between credits and debits as a profit or loss. The Ship Mary, for instance, had an excess of credits over debits of £270, while the Factory at Moose River had a profit of £576. An equivalent debit entry thus brought each individual account into balance, and this was then credited to the "Profit-and-Loss" Ledger.

The "Profit-and-Loss" Ledger, therefore, provided an overview of the HBC's profit for the year. The Profit-and-Loss Ledger for 1740 is reproduced in **Figure Four**. Each entry is the balance of an individual ledger. On the right-hand side are all entries for individual ledgers that reported a profit at the end of the year. This included the operating branches of the Company (Factories and Ships) and interest and dividend returns on financial investments. The left-hand side includes five entries for individual accounts that reported a loss during the year (Ship Sea Horse, Lease of Company House, Account of Charges, Merchandise-in-goods, and Apprentices); dividend payments to shareholders; and an entry for "Stock to Close" to bring both sides of the ledger into equality.

This information can be summarized as follows. Deducting operating losses (roughly £2,060) from operating profits (roughly £19,000) leaves a net return of £16,906. From this total, £10,395 was paid to shareholders as dividends (roughly sixty-seven per cent of net income), with the residual of £6,511 retained by the HBC and treated as an increase in shareholders' equity.

The Profit-and-Loss Ledger is the closest approximation in the HBC's financial reporting of the modern corporate income statement, but differs markedly in detail and scope. The modern income statement summarizes a firm's total revenues and expenses in order to derive its net income or profit. All of this information exists within the Grand Ledger, but no separate summary of revenues and expenses is provided.

The Balance Ledger

The net worth of the Company at year end was summarized in the "Balance" Ledger. Each entry reflects the assets and liabilities of an individual ledger, with differences in credits and debits treated as either an appreciation or depreciation in asset value. The Balance Ledger thus approximates the modern equivalent of the balance sheet, reflecting the equality between total assets (debits) on the left-hand side and liabilities and owner's equity on the right-hand side.

The Balance Ledger for the end of the 1740 trading year is reproduced in **Figure Five**. Assets (on the left-hand side) were divided among its "forts and factories;" separate entries for each ship—the Mary, Hudson Bay, and Sea Horse—which included both the value of the ship and the goods, provisions, and advance of wages; the inventories and wages advanced at individual factories; cash advanced to the Company's secretary (Thomas Bird) and to Ship Captains (G. Spurrell, C. Middleton, and W. Coats); stocks and bonds held in the East India Company and the Old South Sea Company; and loans to individuals. On the right-hand side, its liabilities were limited to claims by servants and apprentices for wages and gratuities; miscellaneous debts to individuals; and unpaid dividend payments from past years. Finally, the "stock" is the residual of assets less liabilities, or shareholders' equity. In other words, "Stock" represents the net worth of the Company, where:

$$\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$$
$$\text{or} \quad \text{Net Assets} = (\text{Assets} - \text{Liabilities}) = \text{Owner's Equity}.$$

By modern accounting practices, the organization of the information has several shortcomings. First, there is little appreciation of the time structure of assets, with an incomplete separation of current from non-current. Entries for individual ships include both current assets (inventories of goods and provisions, and advance on wages) and non-current ones (the value of the ship itself). Nor is there an adequate distinction between physical and financial assets, such that the distribution of the Company's holds is incompletely displayed. This was a significant shortcoming to the degree that the HBC had come to hold a sizeable share of its assets in financial securities: over £25,000 was held in the form of securities and long-term loans to individuals. This

Figure Five: HBC Balance Ledger, Anno 1740

Credit		Debit	
to Forts and Factories	50,000/–/–	Stock	92,039/12/1
to Ship Sea Horse	2,446/9/5	Old Div. unpaid	1,499/10/–
to W. Atwill & Co.	1,279/–/–	Lane @ Russell	41/18/–
to HBC Stock, T. Knapp	781/4/–	J. Bricker	13/–/–
to E. India bonds, T. Knapp	1,763/15/–	R. Glyn	18/8/–
to E. India bonds	16,205/16/5	Dividend 1737	297/12/–
to Old South Sea stock	1,117/10/–	Apprentices	–/15/3
to Lease, Company House	731/5/–	Dividend 1738	297/12/–
to G. Spurrell	44/–/2	Dividend 1739	1447/–/–
to C. Middleton	30/13/–	Servants	2,113/3/–
to W. Coats	24/8/–	Dividend 1740	2,340/17/5
to Customs drawback	511/9/5		100,109/7/9
to Dubious Debts	1/–/–		
to B. Lake & Atwill	3,000/–/–		
to B. Lake	2,930/–/–		
to W. Elderton	800/–/–		
to T. Bird	837/16/6		
to Assignee, S. Evans	745/–/4		
to Ship Hudson Bay	2,348/16/8		
to Esquemay Trade	19/10/2		
to Brazil Tobacco	784/12/8		
to Cash, T. Burrows	2,133/7/–		
to Prince of Wales	3,609/8/9		
to York Factory	2,489/14/9		
to Albany River	2,163/8/6		
to Moose River	1,105/5/1		
to Ship Mary	2,188/14/2		
to Transfers	8/2/9		
	100,109/7/9		

Source: HBCA A14/10, folio 67.

inadequate separation of physical from financial assets, and of current from non-current assets, leaves the Company's liquidity or convertibility to cash inadequately emphasized.

Finally, how the HBC valued its physical assets is subject to some complications. Its most valuable asset was its Royal Charter and the monopoly power that it vested; however, assigning a monetary value would have been injudicious, if only for political reasons. In contrast, it imputed to its "Forts and Factories" a monetary value of £50,000. No justification is provided for this valuation, and for this it can hardly be faulted. Asset valuation, either in terms of the historical cost of construction or an estimate of their current market worth, would have been equally arbitrary. Nonetheless, it is noteworthy that just nine years later, "Forts and Factories" were carried at a book value of £100,000, probably in order to justify the HBC's claim for £100,543/13/9 in

war reparations from the "French Nation." Similarly, each ship carried a book value of £800, which more closely approximated the historical cost of construction. No annual allowance is made for the depreciation of these physical assets—the same nominal value was applied year after year—with the effect of inflating both the annual profits and net worth of the Company. Despite these shortcomings, the HBC made a reasonable attempt to calculate its net assets, and its estimated net worth of £100,000 appears not unreasonable.

Conclusion: Did the HBC Know How Profitable it Was?

Two specific questions emerge from an overview of the HBC's financial records of the mid-eighteenth century. Was there sufficient information to allow the Company to ascertain its annual income and net worth? And, if so, what rate of profit was the Company earning?

The financial information conveyed in the HBC's Grand Ledger is of high quality and, while it falls short in terms of modern accounting practices, there is sufficient detail to reconstruct a picture of its financial affairs. The "Profit-and-Loss" and "Balance" accounts provide a summary of the HBC's overall financial position and enable a reasonable estimate of the Company's profitability and net worth. If 1740 was a representative year, then the HBC was indeed one of the "gilt-edged" investments of the eighteenth century.[21] The Company earned a profit of £18,000 on an estimated capital stock of £100,109. This represents a rate of return of eighteen per cent on invested capital, far exceeding the normal six per cent return on long-term securities.

Given the HBC's significance in North American, and to a lesser extent, English, economic history, its profitability has received surprisingly scant attention. In large part, historians have relied upon dividend records to draw inferences about the operating profits of the Company. But profits and dividends can diverge with a company's strategic need to satisfy shareholders, attract new investors, or retain earnings for future investment plans. Moreover, since the HBC was engaged in several financial investments in England—including the East India Company and the South Sea Company—the profitability of the fur trade *per se* is further obscured by a reliance upon total dividend payments. Further investigation of the HBC's financial records, therefore, holds the potential to enhance our understanding of the operation of overseas ventures in the late-seventeenth and the eighteenth centuries.

A third question concerns the intrinsic value of the HBC's financial records. Its system of financial reporting in the mid-eighteenth century are an important artifact of the evolution of double-entry bookkeeping. The Grand Journal and Grand Ledger display the form of double entry, and the derivation of summary accounts that describe the Company's annual return and net worth. In this respect, they illustrate the importance of overseas trading companies in the development of a clear separation between income and capital, and between

expenses and investments, in what Sombart describes as the "rationalistic pursuit of unlimited profit."

Notes

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2 The Archives' development is documented in D.A. Simmons, "'Custodians of a Great Inheritance': An Account of the Making of the Hudson's Bay Company Archives, 1920-1974," (M.A. Thesis, University of Manitoba and University of Winnipeg, 1994).

3 A.J. Ray, "The Early Hudson's Bay Company Account Books as a Source for Historical Research: An Analysis and Assessment," *Archivaria* 1 (1975-76), pp. 3-38.

4 Despite the folklore, P. Leonard Boyle, former Vatican librarian, was unaware of any documentary evidence for the Vatican's role in the evolution of double-entry bookkeeping (personal correspondence).

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12 E.E. Rich, *History of the Hudson's Bay Company, 1670-1821* Vol. 1 (London, 1958-59), p. 89.

13 Ibid., p. 169.

14 Ibid., p. 187.

15 K.G. Davies, "The Years of No Dividends: Finances of the Hudson's Bay Company, 1690-1718," in M. Bolus, ed., *People and Pelts: Selected Papers of the Second North American Fur Trade Conference* (Winnipeg, 1970).

16 Rich, *History of the Hudson's Bay Company*, p. 163.

17 K.G. Davies, "Introduction" to E.E. Rich and A.M. Johnson, eds., *The Hudson's Bay Copy Booke of Letters Commissions Instructions Outward 1688-1696* (London, 1957), p. xviii.

17 Rich, *History of the Hudson's Bay Company*, p. 230.

18 Ibid., p. 230.

19 Alex Ross and Anne Morton provide a useful overview of the business records in "The Hudson's Bay Company and its Archives," *Business Archives* 51 (November 1985), pp. 17-39. On business archives in North America, see Christopher L. Hives, "History, Business Records, and Corporate Archives in North America," *Archivaria* 22 (Summer 1986), pp. 40-57 and Robert W. Lovett, "The Appraisal of Older Business Records," *American Archivist* 15 (1952), pp. 231-39.

20 The HBC's labour records have received the most sustained attention (see Phillip Goldring, "Labour Records of the Hudson's Bay Company, 1821-1870," *Archivaria* 11 (Winter 1980-81), pp. 53-86.

21 Davies, "The Years of No Dividends."