INTERNATIONAL JOURNAL OF RESEARCH AND INNOVATION IN SOCIAL SCIENCE (IJRISS)
ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VII Issue VI June 2023

Accounts Receivable History from Ancient Times to The Modern Era

Theresa Ese Esenohor
Department of Business Education, College of Education, Warri

DOI: https://dx.doi.org/10.47772/IJRISS.2023.7744

Received: 20 May 2023; Accepted: 06 June 2023; Published: 20 July 2023

ABSTRACT

This study presents an in-depth history of accounts receivable from ancient times to the modern era. The Babylonians, Greeks, and Romans all established systems for recording and managing debts owed to them. The study focuses on the first-century AD development of double-entry bookkeeping, which enabled enterprises to maintain their accounts more correctly and effectively. The study uses the Descriptive research method. The study also explores how technology has changed the way businesses manage accounts receivable in the modern day, with electronic payment methods and software making it easier for firms to track and collect payments from clients. In conclusion, the paper emphasized that businesses may better manage their finances and enhances their bottom line by studying the history and evolution of accounts receivable, to remain competitive in today's fast-paced business world, firms must continue to adapt and accept new technologies.

INTRODUCTION

Accounts receivable is an accounting word that refers to money owed to a company by its customers. It is an important part of a company's statement of financial position since it shows how much money is projected to be received from customers in the future. The history of accounts receivable in the statement of financial position stretches back to the early days of accounting, when firms began keeping track of their financial transactions (Needles & Powers 2013). Accounts receivable in the statement of financial position has a long history, dating back to the early days of accounting and evolving over time to become an integral component of modern accounting processes (Warren et al. 2013).

Accounts receivable can be traced back to the ancient Egyptian and Mesopotamian civilizations, where merchants kept records of their transactions on clay tablets. The double-entry accounting technique was developed in medieval Europe, allowing firms to keep track of their accounts more efficiently. Double-entry bookkeeping was developed in the first century AD and is considered the foundation of modern accounting (Kieso et al. 2019). This system involves recording every transaction in two distinct accounts, guaranteeing that the accounts balance. Businesses were able to track their finances more correctly and effectively as a result of this. Double-entry bookkeeping also made it easier to discover errors and fraud. During the Renaissance period, Luca Pacioli published a book on the subject in 1494. This book became the standard reference for double-entry bookkeeping and is still in use today (Kieso, Weygandt, & Warfield, 2019). The development of double-entry bookkeeping transformed accounting processes and has had a long-term impact on how organizations handle their finances.

Every transaction in this system was recorded in two different accounts, one for debit and one for credit. This approach is still in use today and serves as the foundation for modern accounting practices. During the industrial revolution of the 18th and 19th centuries, the use of accounts receivable in the statement of financial position became more common. As firms grew and expanded, they required a more complex system for tracking financial activities.

The statement of financial position evolved into a crucial tool for firms to monitor their financial health and

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VII Issue VI June 2023

make future investment decisions (Weygandt et al. 2015).

Accounts receivable are now an important component of a company's statement of financial position, and they are used to determine working capital, which is the amount of money accessible to the organization for day-to-day operations. Accounts receivable can also be used to evaluate a company's liquidity, or its capacity to satisfy its financial obligations in the short term. The inclusion of accounts receivable on the statement of financial position has enabled companies to monitor their financial health and make educated decisions regarding future investments. This study will look at the evolution of accounts receivable on the statement of financial position from ancient times to the current day, highlighting major advancements and changes that have impacted modern accounting procedures.

The Accounts Receivable Concept

Accounts receivable are the funds owed to a company by its customers for goods or services purchased on credit. A number of authors have defined account receivables in different ways: Accounts receivable is defined by Weygandt et al. (2015) as the total amount of money owed to a company by its customers for goods or services sold on credit, and are recorded as a current asset on the statement of financial position. This definition emphasizes the fact that accounts receivable are a current asset that represents the amount of money that is expected to be received within a year. The Financial Accounting Standards Board (FASB) provides another definition of accounts receivable. Accounts receivable are defined by the FASB as the net amount of receivables arising from the sale of goods or services in the normal course of business (FASB, 2014). Accounts receivable, according to Needles and Powers (2013) is the amount of money owed to a business by its customers for goods or services sold on credit, and it is considered an asset on the statement of financial position. This definition emphasizes the significance of accounts receivable as an asset that reflects the value of a company's outstanding invoices. Accounts receivable are the funds that a firm is entitled to receive from its customers for goods or services sold on credit. According to Investopedia, "accounts receivable represents money owed to the firm by entities on the sale of products or services on credit" (Investopedia, n.d.).

Accounts receivable, according to Warren et al. (2013), is the amount of money owed to a company by its customers for goods or services sold on credit, and are considered a current asset on the statement of financial position. This definition is similar to the previous definitions and emphasizes the importance of accounts receivable as a current asset that reflects the value of a company's outstanding invoices. Accounts receivable are the funds owing to a company by its customers for goods or services sold on credit, and they are recorded as an asset on the statement of financial position. Several accounting authors, including Needles and Powers (2013), Warren et al. (2013) and Weygandt et al. (2015) support this definition.

The Account Receivable Recording

Merchants in ancient Babylonia utilized clay tablets to record transactions, which were then used to maintain accounts receivable (Hoskin, 2014). These tablets served as a written record of the transaction and assisted merchants in keeping track of who owed them money. Merchants utilized bills of trade in the Middle Ages, which were written orders to pay a specified sum of money to a specific person or firm. These bills were intended to maintain track of accounts receivable and to help merchants avoid the hazards associated with carrying large amounts of cash (Edey, 2002).

Businesses began using ledgers and diaries to record transactions throughout the industrial revolution. The notion of double-entry bookkeeping was invented, which assisted firms in more properly tracking their accounts receivables and other financial operations. Every transaction was recorded twice, once as a debit and once as a credit, which helped ensure that the books were balanced (Chandler, 1977). The introduction of computers and electronic accounting systems in the twentieth century altered the way firms managed their receivables. Businesses nowadays utilize sophisticated software applications to handle receivables, produce invoices, and manage payments. These systems help firms manage their finances and ensure that they are compensated for the goods and services they deliver (Edey, 2002).

The transition from manual to computerized systems is one of the most significant shifts in the recording of accounts receivable. Electronic systems outperform manual ones in terms of speed, accuracy, and efficiency. They enable firms to swiftly create and send invoices, track payments in real time, and automate numerous accounting operations (Hoskin, 2014). Another key advancement is the capacity to access financial information from any location on the planet. Cloud-based accounting solutions enable organizations to access their financial data from any device with an internet connection, making account receivables and other financial transactions easier to manage (Edey, 2002). The transition from manual to electronic systems, as well as the development of cloud-based accounting systems, has made it easier for businesses to manage their finances and ensure payment for the goods and services they deliver. These modifications have aided firms in becoming more efficient, accurate, and profitable.

The Evolution of Accounts receivables in the Statement of Financial

From ancient times to the present day, the evolution of accounts receivable has been impacted by technological advancement and changes in business practices. While the core premise of monitoring money owing has not changed, the methods for recording and maintaining accounts receivable have evolved over time. The handling of accounts receivable has developed over time, reflecting changes in accounting standards and company practices. Accounts receivable were not usually included in the statement of financial position in the early days of accounting. Businesses instead kept track of outstanding bills in separate ledgers. Accounts receivable, on the other hand, began to be included in the statement of financial position as a current asset as accounting standards grew more standardized.

Merchants in ancient Babylonia conducted business using a credit and debt system. They would keep track of accounts receivable by recording transactions on clay tablets. These tablets kept a written record of the transaction and assisted merchants in keeping track of who owed them money (Hoskin, 2014). The means for keeping track of accounts receivable emerged alongside trade and commerce. Merchants utilized bills of trade in the Middle Ages, which were written orders to pay a specified sum of money to a specific person or firm. This approach assisted merchants in avoiding the risks of transporting large sums of cash and made long-distance transactions easier (Edey, 2002).

The rise of manufacturing and trade throughout the industrial revolution resulted in the establishment of current accounting methods. Businesses began to record transactions in ledgers and diaries, and the concept of double-entry accounting emerged. This system aided businesses in keeping better track of their accounts receivable and other financial operations (Chandler, 1977). The introduction of computers and computerized accounting systems in the twentieth century altered the way firms managed their accounts receivable. Businesses now utilize sophisticated software to handle accounts receivable, produce invoices, and manage payments. These systems make it easier for businesses to manage their finances and ensure that they are paid for the goods and services they deliver (Edey, 2002).

Accounting standard revisions have also had an impact on how accounts receivable are treated in the statement of financial position. For instance, the implementation of the International Financial Reporting Standards (IFRS) in 2005 resulted in modifications to how accounts receivable are presented on the statement of financial position. Accounts receivable are reported at their net realizable value under IFRS, which is the amount of money expected to be received from customers after deducting any allowances for bad debts. Changes in company practices have also altered the presentation of accounts receivable in the statement of financial position, in addition to changes in accounting requirements. The rise of e-commerce and online payment systems, for example, has made it easier for businesses to collect payments from clients, resulting in a reduction in the amount of time it takes to collect overdue invoices. This has resulted in a reduction in the amount of accounts receivable reported on the statement of financial position for some organizations; nonetheless, the treatment of accounts receivable on the statement of financial position has developed over time, reflecting changes in accounting standards and business practices. The value of accounts receivable as a current asset and a reflection of a company's outstanding invoices, on the other hand, has not changed.

Account Receivable Treatment Based on Ancient Account practice

The treatment of accounts receivable in ancient accounting methods can be found in surviving transaction and ledger records. Ancient accounting practices treated accounts receivable similarly to modern accounting practices. Accounts receivable were previously documented in separate ledgers, which were used to keep track of the amount due by customers. These ledgers contained information such as the customer's name, amount owed, and due date (Weygandt et al. 2015).

One of the earliest known examples of accounts receivable records originates from the Mesopotamian city of Nippur. These records, which date back to roughly the year 2000 BCE, provide information about the sale of barley and other goods. According to the records, the merchants kept track of their accounts receivable using a token system that represented the amount owing by the buyer (Friedman & Friedman, 1993). To keep track of their financial transactions, the ancient Greeks also utilized an accounts receivable system. Aristotle described how merchants kept track of their accounts receivable using a system of credits and debits in his book, "Politics" (Warren et al. 2013). The evidence of surviving records and ledgers shows that the treatment of accounts receivable in ancient accounting practices was similar to the modern approach.

Accounts receivable were tracked individually and included details such as the customer's name, the amount owed, and the due date. Tokens and a credit and debit system were also widely used. These historical accounting techniques demonstrate the significance of recording accounts receivable as well as the evolution of modern accounting processes. Accounts receivable management has a long history that stretches back to ancient accounting techniques. Accounts receivable were initially documented in separate ledgers, which were used to keep track of the amount due by customers. In medieval Europe, the introduction of the double-entry accounting system enabled enterprises to keep track of their accounts more efficiently. Accounts receivable were used in ancient accounting procedures in a manner similar to the modern one, reflecting the importance of this component of a company's statement of financial position.

ACCOUNT RECIEVABLE TREATMENT BASED ON MODERN ACCOUNT PRACTICE

Accounts receivable are reported as a current asset on the statement of financial position under modern accounting methods. Accounts receivable are reported at their net realizable value, which is the amount of money projected to be received from customers after deducting any bad debt allowances (Weygandt, Kimmel, & Kieso, 2015). Changes in business processes also have an impact on how accounts receivable are treated in current accounting methods. The rise of e-commerce and online payment systems, for example, has made it easier for businesses to collect payments from clients, resulting in a reduction in the amount of time it takes to collect overdue invoices. As a result, the quantity of accounts receivable represented on the statement of financial position has decreased for some organizations.

Accounts receivable treatment is also influenced by changes in accounting standards. For example, the International Financial Reporting Standards (IFRS) established in 2005 changed how accounts receivable are recorded on the statement of financial position. Accounts receivable are reported at their net realizable value under IFRS, and the allowance for doubtful accounts is computed as a proportion of the total (Warren, Reeve, & Duchac, 2013). Modern accounting procedures demonstrate that how accounts receivable are handled is an important element of financial reporting. It is documented in the statement of financial position as a current asset and is reported at its net realizable value. Accounts receivable treatment has evolved over time in response to changes in business practices and accounting standards, indicating the importance of this component of a company's statement of financial position.

Important Changes in Account Receivables Treatment Over the years

Accounts receivable treatment has changed multiple times over the years, reflecting changes in accounting standards and company operations. The changes will be explained in detail in the following paragraphs. Since the Babylonian era, accounts receivable have been managed in various ways.

The Babylonians were the first to utilize a written language, and they devised a financial record-keeping system. They kept track of transactions, including obligations owed to them, on clay tablets. These tablets were then archived for future use (Goudarzi & Salehi, 2016). The Greeks also had an account receivables management system in place. They devised a currency system that made transactions more convenient. They also utilized papyrus to keep track of transactions, such as debts owed to them. These recordings were archived and used to resolve disputes (Lee & Chen, 2016).

In the first century AD, the Romans advanced the accounting system by introducing double-entry bookkeeping. This technology improved the accuracy and efficiency with which firms tracked their accounts. Double-entry bookkeeping entails documenting each transaction in two separate accounts and ensuring that the accounts balance. This approach is still in use today and is regarded as the bedrock of contemporary accounting (Kieso et al. 2019). Technology has transformed the way accounts receivable are managed in the modern day. Businesses can now track and collect payments from clients more easily thanks to electronic payment systems and software. These technologies also provide real-time data to enterprises, allowing them to make informed financial decisions (Lee & Chen, 2016). Changes in technology have changed the treatment of accounts receivable in addition to changes in accounting standards and company practices. Accounting software, for example, has made it easier for firms to track and manage their accounts receivable. This has resulted in more accurate and timely balance-sheet reporting of accounts receivable (Needles & Powers, 2013). Accounting procedures have evolved in response to the requirement to manage funds more correctly and effectively. Businesses nowadays are continuing to adapt and adopt new technology in order to improve their financial management procedures.

The introduction of the International Financial Reporting Standards (IFRS) in 2005 was one of the most significant improvements in the treatment of accounts receivable. Accounts receivable are reported at their net realizable value under IFRS, which is the amount of money expected to be received from clients after subtracting any bad debt allowances (Warren et al. 2013). This modification was significant because it compelled firms to record accounts receivable at a more cautious value, reflecting the possibility that some customers may fail to pay their outstanding sums.

Another shift in account receivable treatment has been the increased use of electronic payment systems such as credit cards and online payment platforms. These methods have made it easier for businesses to collect payments from clients, resulting in a reduction in the time required to collect overdue invoices. As a result, the amount of accounts receivable represented on the statement of financial position has decreased for some organizations (Weygandt et al. 2015).

Changes in the global economy have also had an impact on how accounts receivable are handled. During an economic downturn, for example, firms may see a rise in the number of customers who are unable to pay their outstanding bills. This can result in an increase in the allowance for doubtful accounts, which is a contra asset account used to reduce the value of accounts receivable to its net realizable value (Warren et al. 2013). The treatment of accounts receivable has changed over time to reflect changes in accounting standards, business practices, technology, and the global economy. These modifications have resulted in more accurate and timely reporting of accounts receivable on the statement of financial position, as well as improved business cash flow and financial health.

Factors Involving Changes in Accounts receivable Treatment from Ancient to Modern Times.

Accounts receivable treatment has evolved significantly from ancient to modern times, reflecting changes in company processes, accounting regulations, and technology. These aspects will be explained in depth in the following paragraphs. The rise of trade and commerce was one of the causes that influenced changes in the treatment of accounts receivable from ancient to modern times. Trade was mostly conducted through barter in ancient times, making it difficult to maintain accounts receivable. However, when cash and trade developed, merchants began to keep records of their transactions, including accounts receivable (Friedman & Friedman, 1993).

The emergence of the double-entry bookkeeping system in medieval Europe was another element that influenced developments in the treatment of accounts receivable. This system made it easier for firms to keep track of their financial operations, particularly accounts receivable. Every transaction was recorded in two separate accounts, one for debit and one for credit, according to the system. This approach is still in use today and serves as the foundation for modern accounting procedures (Needles & Powers, 2013). Changes in technology have had a profound impact on how accounts receivable are handled. Accounting software has simplified the tracking and management of accounts receivable for firms. This has resulted in more accurate and timely balance-sheet reporting of accounts receivable. Changes in the treatment of accounts receivable from ancient times to modern times have been influenced by a variety of factors, including the rise of trade and commerce, the development of the double-entry bookkeeping system, the rise of banking and finance, and changes in accounting standards (Needles & Powers, 2013). These reasons have resulted in increasingly sophisticated accounting methods, demonstrating the importance of tracking accounts receivable and the evolution of current accounting practices.

The growth of banking and finance also had an impact on how accounts receivable were handled. Businesses were able to provide credit to their consumers as banking and credit systems developed, resulting in an increase in the number of accounts receivable. This resulted in the creation of more sophisticated accounting techniques, such as the usage of bad debt allowances (Weygandt et al. 2015). Accounting standard changes have also had an impact on the treatment of accounts receivable over time. For example, the implementation of the International Financial Reporting Standards (IFRS) in 2005 resulted in modifications to how accounts receivable are presented on the statement of financial position. Accounts receivable are reported at their net realizable value under IFRS, and the allowance for doubtful accounts is computed as a proportion of the total (Warren, Reeve, & Duchac, 2013).

BUSINESSES USE NEW TECHNOLOGIES TO MANAGE ACCOUNT RECEIVABLES

Electronic payment methods and software have made it easier for businesses to track and collect payments from clients, as well as more efficiently manage accounts receivable (Lee & Chen, 2016). Electronic invoicing, for example, has reduced the time and expense associated with paper-based invoicing while also allowing businesses to follow the status of invoices in real-time, ensuring timely payment (Kieso et al. 2019).

Businesses have adopted new technologies in a variety of ways to manage accounts receivable. Businesses can now track and collect payments from clients more easily thanks to electronic payment systems and software. These technologies also provide real-time data to enterprises, allowing them to make informed financial decisions (Lee & Chen, 2016). The usage of electronic invoicing is one example of how organizations have adapted to new technologies.

Electronic invoicing enables businesses to send invoices to clients online, saving time and money over paper-based invoicing. Businesses can also follow the status of invoices in real time, ensuring that payments are received on time (Kieso et al. 2019).

Customer relationship management (CRM) software is another example of how organizations have adapted to new technologies. Another technology that has transformed the way accounts receivable are managed is customer relationship management (CRM) software. CRM software enables firms to measure and manage client interactions. This software can also be used to handle accounts receivable by recording payments and sending out reminders to clients who owe money (Lee & Chen, 2016).

Companies have also begun to use automated payment systems to manage accounts receivable. Automated payment systems enable businesses to automatically collect payments from clients, saving the time and expense involved with human payment processing. organizations have adapted new technologies to manage accounts receivable in a variety of ways. These systems also give organizations with real-time data, allowing them to track payments and manage cash flow more effectively (Kieso et al. 2019). Businesses are embracing technology to improve their financial management operations in a variety of ways, including electronic invoicing, CRM software, and automated payment systems.

RECOMMENDATIONS

Account receivable administration has changed tremendously from ancient times to the modern era, accountants should keep themselves abreast with technological advancements and changes in accounting processes which will result in more sophisticated and efficient methods of managing accounts receivable. All these modifications will aid firms in becoming more efficient, accurate, and profitable.

CONCLUSION

In conclusion, accounts receivable have been a feature of commercial operations since ancient times. The Babylonians, Greeks, and Romans all established systems for recording and managing debts owing to them. Accounts receivable management strategies evolved alongside trade and commerce over the years. Businesses were able to track their finances more correctly and effectively after the introduction of double-entry accounting in the 15th century. Technology has transformed the way accounts receivable are managed in the modern day. Businesses can now track and collect payments from clients more easily thanks to electronic payment systems and software. Despite these developments, accounts receivables continue to be an important component of a company's financial health; the history of accounts receivables demonstrates how this fundamental aspect of business has evolved over time. Businesses may better manage their finances and enhance their bottom line by studying the history and evolution of accounts receivable. To remain competitive in today's fast-paced business world, firms must continue to adapt and accept new technologies.

REFERENCES

1. Chandler, A. D. (1977). The Visible Hand: The Managerial Revolution in American Business. Cambridge, MA: Harvard University Press.
2. Deloitte. (2018). IFRS in your pocket 2018. Retrieved from https://www2.deloitte.com/content/dam/Deloitte/global/Documents/About-Deloitte/gx-ifrs-in-your- pocket-2018.pdf
3. Edey, H. (2002). The Evolution of Accounting. Journal of Accountancy, 193(4), 63-66.
4. Financial Accounting Standards Board. (2014). Accounting Standards Update No. 2014-09: Revenue from Contracts with Customers (Topic 606). Retrieved from https://asc.fasb.org/imageRoot/77/99067677.pdf
5. Friedman, H. L., & Friedman, L. W. (1993). Ancient Mesopotamia: New perspectives. ABC-CLIO.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VII Issue VI June 2023

6. Goudarzi, S., & Salehi, M. (2016). The history of accounting from ancient times to modern era. International Journal of Accounting and Financial Reporting, 6(2), 1-10.
7. Hoskin, K. W. (2014). Accounting in Ancient Babylonia: The Scribe and the Merchant. Accounting Historians Journal, 41(1), 1-20.
8. Investopedia. (n.d.). Accounts Receivable (AR). Retrieved from https://www.investopedia.com/terms/a/accountsreceivable.asp
9. Kieso, D. E., Weygandt, J. J., & Warfield, T. D. (2019). Intermediate accounting (16th ed.). John Wiley & Sons.
10. Lee, T. A., & Chen, Y. (2016). The evolution of accounting: A historical perspective. Journal of Accounting, Auditing & Finance, 31(4), 551-565.
11. Needles, B. E., & Powers, M. (2013). Financial accounting. Cengage Learning.
12. Warren, C. S., Reeve, J. M., & Duchac, J. E. (2013). Accounting. Cengage Learning.
13. Weygandt, J. J., Kimmel, P. D., & Kieso, D. E. (2015). Financial accounting: Tools for business decision making. John Wiley & Sons.