

Accounting in Cyprus during Late Ottoman and Early British Rule, 1840 to 1918

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Abstract

Compared to many developed countries in the former British Empire, little has been written about the accounting history of the Mediterranean island of Cyprus. This article attempts to fill this void. It focuses on the transition in accounting practice from the last four decades of Ottoman rule to the first four decades of British rule. The main focus is on the significant influences on the development of accounting practice on the island during the four decades from the start of the British occupation and administration in 1878, ending with the Great War in 1918. This period constitutes the 'source phase' of the theory proposed by McKinnon (1986), and therefore the beginning of modern accounting practice in both the public and private sectors. Like other studies on the history of accounting in various states, this paper argues that the practice of accounting evolved in response to political, economic, legal, social and military changes and challenges.

Keywords: Ottoman Cyprus, British Cyprus, Colonial development, economy, accounting practice

Introduction

British influence in its former Empire has been enormous and can be described, for example, in social, cultural, political, military, legislative and economic terms. In recent times, various accounting scholars have investigated aspects of this colonial imprint. Initially, much of this literature has explored the emergence of accounting practice primarily in the Anglo-American context (for example, Macdonald, 1984; Miranti, 1986; Willmott, 1986; Walker, 1991; Lee, 1995) as well as in former colonies of the British Empire (Carnegie, 1993; Chua and Poullaos, 1993, 1998 and 2002; Carnegie and Parker, 1999; Kim, 2004; Sian, 2006; Dyball, Chua and Poullaos, 2006; Dyball, Poullaos and Chua, 2007). More recently, Poullaos and Sian (2010) traced the formation of professional accountancy bodies in selected colonial outposts, within the context of the empire experience. The British influence on accounting practise in Cyprus has, however, remained largely unexplored by historians.

In 1878 Cyprus came under British occupation and administration, it was then annexed in 1914, and subsequently it became a Crown Colony from 1925, until granted independence in 1960. Thus, Cyprus, together with Gibraltar, Ireland and Malta, is one of the few former European colonies of the British Empire. To date, only four articles have been published on the accounting history of Cyprus in the English language and each will be briefly mentioned in chronological

order of publication. The first article succinctly described the export of British company legislation and its accounting requirements to some Commonwealth countries, including Cyprus (Walton, 1986). The next article outlined some developments in accounting on the island during the lengthy period from its early civilisation to more modern times (Clarke, 2011). More recently, Clarke and Varnava (2013) described the various factors which influenced accounting practice in Cyprus from the end of the Great War until Cypriot independence in 1960. Finally, there is a biographical paper outlining the life of Nevvar Hickmet, who was the first Cypriot to qualify as a member of the prestigious Institute of Chartered Accountants in England and Wales in 1937 (Clarke, 2013).

This article aims to add to the little literature on the history of accounting in Cyprus, by covering the late Ottoman and early British periods of rule, therefore the period from the 1840s until the end of the Great War. Exploring change in accounting practice over time offers an alternative approach with which to discuss the economic and social developments of any country. Specifically, this article addresses two issues: the transition in accounting practice from Ottoman rule (c. 1840) through the four decades of British rule (1878–1918); and the significant factors which either hindered or encouraged the development of accounting practice on the island during that time, particularly the British period. Hence, the focus will be on the changes that took place in the last decades of Ottoman rule and the subsequent context of Cyprus as a British ‘inconsequential possession’. Given this orientation, in relation to accounting literature, this article supports the findings of Tinker (1980, 1991), Neu (2000), and Davie (2005) regarding the non-neutrality of accounting within a colonial context.

Most accounting historians accept that accounting is an evolutionary social technique. This viewpoint requires an appropriate ‘conceptual framework’ to examine the phenomenon under investigation. Over the years various researchers have adopted different approaches to investigate (financial and managerial) accounting history and, perhaps understandably, there is no consensus regarding which approach is more appropriate than others. For example, Napier argues that there are three approaches but these are not exhaustive. The first approach represents understanding the past, which focuses on the analysis of original accounting records and events, but this approach may suffer from the ‘danger of premature generalisation ... which could potentially lead to deceptive conclusions’ (Napier, 1989, p. 239). The second approach is to locate accounting in its socio-historical context. The late Professor Anthony Hopwood (1983 and 1987) argued that the dynamics of accounting history must be studied in its social and organisational context so as to identify the preconditions for change, the underlying pressures and influences and the process of such change. The third approach, namely, the new positivism approach relies on the use of empirical data to test theories and predict future accounting practice but this is difficult to apply in exploratory historical studies.

Jill McKinnon’s (1986) theoretical framework, based on social systems theory, helps to explain the accounting transition in Cyprus from Ottoman to British rule. Her framework views the

accounting system as one of the social systems of a country, which operates within a political, cultural and economic context. As a result the accounting system is affected and affects other social systems, and the process is interactive and interconnected. This perspective acknowledges that accounting information is a human invention; that practice of accounting in any country does not exist in a vacuum but, rather, is contingent on a variety of political, economic, legal and social factors that influences its development (Zeff, 1971). The development of accounting practice in Cyprus does not deviate from this orientation. The methodology adopted in this paper is to trace, through primary and secondary sources, the development of accounting practice in Cyprus commencing in the last decades of Ottoman rule (c. 1840) through to the four decades of British occupation and administration (1878–1918). The sources are scarce, since there is a lack of company records, mostly consisting of government correspondence, memoranda and report. The article is structured as follows. The next section outlines the Ottoman context, which includes a consideration of the Ottoman Commercial Code. The article then focusses on the period of British occupation and administration using a chronological-analytical framework to contextualise how (i) Cyprus as an ‘inconsequential possession’; (ii) the administrative system in Cyprus; (iii) changes in education; (iv) the creation of savings banks and the co-operative movement; and (v) the Great War, all played a pivotal role in the development of accounting practice in Cyprus.

The Ottoman Context

The Ottoman context is vital in understanding any issue or theme for the early period of British rule of Cyprus. There is a significant difference between Cyprus and most other British colonial possessions, with the exception of Egypt and the mandates in the Middle East, and that is that the island came under British control after being under Ottoman rule for some 300 years. This transition was recently explored by Burrows and Cobbin (2011) in relation to Mesopotamia/Iraq, but it is important to note that Iraq emerged as a British League of Nations Mandate after World War I until 1931 and then obtained ‘independence’, and accordingly started out on its path towards becoming a nation-state as a part of the British Empire. In addition, Brock and Richardson (2013) discuss the development of the accounting profession in Palestine, which was also a British Mandate, although for longer, from 1922 to 1948. In contrast to both studies, Cyprus was occupied much earlier and did not achieve political independence until much later, in 1960, and the local accountancy profession did not emerge in Cyprus until 1961, when the Institute of Certified Public Accountants of Cyprus was founded. Although there are significant differences between the three cases there were also obvious similarities, such as the certain continuities from the Ottoman period. Consequently, this article focuses on the earliest period possible in the life of a colonial possession, the point at which a colony (or in the case of Cyprus an overseas possession without the responsibility of sovereignty) transitioned from the rule of one imperial power to another.

There are different views about the nature of Ottoman rule of Cyprus, but a recent book attempts to bridge the differences between various ethnocentric studies and those that use strict historical methodology (Michael, Kappler and Gavriel, 2009; Aymes (2014). During the nineteenth century, the Ottoman government, in order to secure its territorial integrity against expansionist European powers and internal movements desiring autonomy or independence, embarked upon the *Tanzimat* (reorganisation). This started in 1839 and introduced socio-economic changes, which included restructuring of government institutions and efforts to renew the financial system (Quataert, 2000; Saygili and Cabuk, 2012). In 1840 the Ottoman government undertook the reorganisation of the finance system according to the French model and also introduced the first Ottoman paper banknotes. This did not mean that the age-old problems of dealing with different currencies, and therefore varying exchange rates, was particularly resolved (Pamuk, 2000, pp. 205–211), instead it continued to pose dilemmas and add to the workloads of accountants. Then in 1850 the Ottoman Empire introduced the *Ottoman Commercial Code*, again based on the French (Napoleonic) commercial code which had been adopted in a number of European countries during the early nineteenth century (McLeay, 1999). The Code was in keeping with the Ottoman Empire's efforts to redress its perceived decline by 'copying' various Western European initiatives. Gaspard Amirayan, a Barrister and the Assistant King's Advocate in Cyprus during British rule, noted that many commentators believed that the *Ottoman Commercial Code* was directly copied from the French Commercial Code, but he noted that there were points of divergence which could be attributed to accident or design since the Ottoman text of the Code indicated that modifications were made 'as was thought necessary to bring those provisions in harmony with the circumstances of the Ottoman Empire' (Amirayan, 1906, p. vi).

The *Ottoman Commercial Code* provided, inter alia, for the formation of business partnerships and also corporations (*Societe Anonyme*), which corresponded to, but predated, the English limited liability company. However, unlike the variety of partnerships that could be created through registration with the Commercial Courts, a corporation could only be formed by prior Imperial Decree (Amirayan, 1906). It should be appreciated that this was capable of being a cumbersome process and open to failure. Some of the provisions of this *Ottoman Commercial Code* had important implications for the practice of accounting. Nonetheless, these provisions should not be considered to be unique to the Ottoman Empire or Cyprus because the French Commercial Code had been adopted in a number of European countries during the early nineteenth century (McLeay, 1999). The Code required that:

- Every trader had to record on a daily basis details of transactions, bills of exchange payable and receivable and maintain an inventory showing on an annual basis moveable property, debts and assets (Articles 3 and 4).
- The (accounting) books could not contain any blanks, obliterations or writing between the lines. At the start of each year, an officer of the Commercial Court would number

the pages and mark them at the end of the year, but the officer was not allowed 'whatsoever to read a single word' (Article 5).

- Only books which were kept in conformity with the legislation could be admitted as evidence in disputes arising between traders (Article 8).
- If a trader became bankrupt, then within three days of the cessation of payments, a declaration of bankruptcy had to be made and accompanied by the presentation of the balance sheet which would be certified as true, and signed and dated by the debtor.

The above accounting provisions required that basic accounting records be maintained so as to assist in the resolution of conflicts over debts between traders and also to facilitate bankruptcy proceedings.

Regardless, the Ottoman government did not strongly enforce the Commercial Code because it conflicted with the Islamic principles (Güvemli and Güvemli, 2006). There was no need for traders to maintain accounting records or prepare 'accounts' for the purpose of income tax assessment – an income tax on trading profits did not exist. A *verghi* (property) tax was assessed, theoretically, in proportion to an individual's actual income but this was assessed by the tax collector (done by the village head, the *mukhtar*) according to the estimated financial capacity of the person and it was commonly assessed at a fixed amount according to the nature of the business. Obviously, the level of subjectivity involved in this type of tax assessment facilitated corruption, favouritism and extortion. This taxation system continued during the early years of British rule, with the British being far more thorough in collection (Katsiaounis, 1996). But in 1906, the British abolished it and its disappearance, was (unsurprisingly) 'hailed with delight by the inhabitants' (Orr, 1918, p. 86). Indeed income tax, as it now applies, was not introduced to Cyprus until 1941 and the relevant legislation required that appeals against income tax assessments had to be supported by the submission of accounts by the assessed person and the inspector of taxes also had the right of access to all accounting books of the trader (Clarke, 2011; Clarke and Varnava, 2013).

The role of accounting should then be viewed within the context of the economic fabric of the society in which it existed. Hadjianastasis (2009) among others noted that under Ottoman rule the economy of Cyprus was mostly dependent upon agriculture. When viewed from a Eurocentric perspective, the Ottoman Empire was deficient in economic management and Cyprus was a neglected outpost. Thus, Luke (1965, p. 222), quoting from a consular letter, dated 1867, which stated that 'nothing whatever is spent on the improvements of the country, no roads are constructed, no bridges thrown across the winter torrents (and there are) other instances of a careless or vicious administration'. Some years later, Sir Charles Orr, the Chief Secretary of the Cyprus colonial government during the time of the Great War was equally critical in stating that 'at the time of British occupation Cyprus possessed no harbours, no railways, and only one road,

twenty six miles in length, which connected the port of Larnaca with the capital [Nicosia] and he concluded that 'agriculture [was] languishing, trade and commerce underdeveloped, [with] a general state of paralysis prevailing' on the island (Orr, 1918, pp. 66 and 172). But, a few successful and long-standing businesses were established during this period, such as the steamship, travel and forwarding, and insurance and banking agencies, Mantovani and Sons in 1856, Pierides in 1860 and Francoudi and Stephanou in 1895, and the import-export businesses of N.P. Lanitis and Company and Dickram Ouzounian and Company in 1895 (see Keshishian, 1985, pp. 1, 10, 12, 249, 256), together with the Imperial Ottoman Bank in 1864, but there was little evidence of a general need for accounting information over and above the procedures for double-entry accounting.

Given the economic condition of the island, there was little need for accounting records in domestic enterprises except in the case of resolving disputes with creditors. Admittedly, those traders that did not maintain adequate accounting records were at greater risk of theft and error by their employees and agents. But, there was no legislation in force requiring commercial enterprises to prepare accounting reports for shareholders or to submit 'accounts' for income tax purposes. Indeed, such developments would initially occur during the 1920s and thereafter. So, the underdeveloped state of accounting, in terms of book-keeping skills around the mid-nineteenth century reflected the needs of Cypriot society – a society that was agricultural and impoverished.

There is another important aspect in the context of the accounting transition from Ottoman to early British rule, namely, the method used to record various accounting transactions. Napier (2009) stresses two particular features of accounting practice in the Ottoman Empire which differed from the English practice of double-entry book-keeping. The first distinguishing feature is the '*Merdiban*' (ladder) method. The *Merdiban* method recorded information in the form of a table with overall totals at the top of the page and then more detailed breakdowns of these totals in parallel columns lower down, with various entries having the appearance of 'stairs' or the rungs of a ladder. The second distinguishing feature of Ottoman accounting is the use of *siyakat*. Yayla (2011) explains that *siyakat* is a calligraphy type with no definite script or punctuation marks – this provided a form of confidentiality – and this aspect had to be learned through a master-apprentice relationship. The use of *siyakat* in Ottoman accounting documents means that they can be read only by those who have studied this writing style and have some familiarity with other languages. Gvemli (2012) also notes that the Ottoman accounting entries were recorded from right to left in contrast to British (and western) double-entry book-keeping which uses writing from left to right. Thus, it is not surprising that Toraman and Ogreren (2013) found in their study that the internal accounting records of the business were significantly different compared to a contemporary western double-entry system. Related to this is the fact that the first book on double-entry book-keeping, specifically written for users in the Ottoman Empire, was published in 1830 (Ozbirecikli, Aslan and Odabus, 2008). Subsequently, the compulsory switch (for State accounting) to a double-entry book-keeping system was imposed by decree in 1880. State departments were forced to give up an accounting system which had been in use for nearly 600

years, and replace it with a double-entry book-keeping system which had been developed in another civilisation (Güvemli and Güvemli, 2006). The decree was made two years after administration of the island of Cyprus was granted to Britain.

After three centuries of Ottoman rule it was perceived, especially among the Cypriot Orthodox-Christian community, who represented about three-quarters of the island's population in the 1881 Census, that British 'administration' would bring immediate economic, political and social benefits (Varnava, 2009, pp. 157–158). An English-language newspaper in Cyprus at the time commented: 'although Cyprus has enjoyed little more than a month of English protection, a wonderful change has already taken place. At the port of Larnaca, restaurants, inns, ship-chandlers, and stores of every description have sprung up like magic' (*Cyprus: Weekly Journal*, 1878, p. 1). In order to understand the continuities and discontinuities in the transition from Ottoman to British rule, it is now necessary to more fully explore the early period of British rule of the island and how this impacted on the development of accounting practice.

Cyprus as an 'inconsequential possession' (c. 1878–1918)

It is important to explain why the British occupied Cyprus and the role that the island played within the British imperial system. British rule was based on the so-called Anglo-Turkish Convention signed on 4 June 1878, one week before the Congress of Berlin, and which was put into effect when the first British troops landed and raised the British flag in Nicosia on 12 July (Varnava, 2009, pp. 1, 93–97). The Conservative prime minister, Benjamin Disraeli, concluded a secret alliance with the Ottomans before the Congress met whereby Britain was allowed to 'occupy and administer' Cyprus in exchange for defending the Ottoman Empire against the Russians. The Ottomans retained sovereignty of the island, while the British planned to convert it into a 'place of arms' – a strategic military base from which British interests in the Ottoman Empire and beyond could be protected from Russia, and interests in the Suez Canal could also be protected. The perceived economic value of Cyprus was also an important consideration (Varnava, 2009). Some British commentators claimed Cyprus would be a source of boundless wealth and opportunity. For example, Robert Hamilton Lang, Britain's acting vice-consul since 1861, thought that Cyprus would become 'an oasis in the surrounding desert of unenlightened administrations' (Lang, 1878a, p. 199) and that in a 'few years the people of Cyprus will be the most favoured nation in the world' (Lang, 1878b, p. 329). As revealed by Lee (1931, p. 241), Colonel Robert Home of the war office intelligence department, when evaluating other possible Mediterranean acquisitions, argued that 'commercially, the island is admirably adapted for becoming a depot for English manufacturers and the trade into Syria and Asia Minor' and he also argued, in a somewhat evangelical tone, that if the occupation of Cyprus was a success then it would 'do more to convince eastern nations of the value of civilization, and the benefits of good government than anything else'.

But the reality of the island's actual strategic and economic value was somewhat different. Within weeks of the occupation the British government faced criticism over the selection from

both the Liberal opposition and leading radical newspapers and a serious crisis as the heat and pestiferous environment began to harm the health of the 10,000 strong British and Indian occupational forces. Although rejecting the criticism the government acted, conceding by its actions that the island was not suitable as a place to hold troops when it reduced the garrison to a mere few hundred and decided to build a hill station at Troodos for the remaining forces and government officials for the summer months (Varnava, 2005). Meanwhile three years before Egypt was occupied (which for years was claimed by successive British governments to be a temporary measure), the Conservative government that had occupied Cyprus announced that it would not be developing the silted harbour of Famagusta because the vicinity was too unhealthy and the local government had more important local priorities to spend its revenue. Wider imperial priorities were important in understanding the subsequent inconsequence of Cyprus. The British occupation of Egypt, albeit supposedly temporary, consequently made redundant the spending of money and time to redevelop Famagusta Harbour into a naval base. In 1879 the Russians threatened British interests in India with their diplomacy in Afghanistan, leading to the Second Anglo-Afghan War, so the Russians had bypassed the earlier areas of concern in Western Asia. Moreover, the necessity for the British to occupy Egypt in 1882 indicated how Cyprus was not the stronghold against threats to British interests in that country, and British priorities in the region began to revolve more and more on Egypt. Indeed the garrison in Cyprus, which had been increased in the first few years after the occupation of Egypt, was again reduced to a few hundred by 1894 (Varnava, 2009, pp. 205–208).

The initial British expectation of the economic value of Cyprus was also misplaced. During the first decade of British administration, there was little attempt to develop Cyprus into a commercial base and Famagusta harbour was not merely unsuitable for naval purposes but also for serious trade, while the ports at Limassol and Larnaca were open roadsteads exposed to high winds and strong waves. Various other projects, both public and private, were proposed, but no major ones were pursued (Varnava, 2009, pp. 107–111, 132–134). In relation to private enterprise there was no significant involvement by financial institutions, companies or multinational enterprises in economic development during the early years of British administration. With proper reflection, if any British official had been sent to Cyprus before the decision to ‘administer’ it, they would have reported that in its current state the island would not have been capable of producing revenue to cover a British bureaucracy (which should have been assumed to be more expensive than an Ottoman) and providing for the development of the island. Wolseley, the first high commissioner, realised this and left the island a mere year into his appointment (Varnava, 2009, pp. 113–117).

Following Varnava (2009), Cyprus became an ‘inconsequential possession’ because the island lacked the strategic advantage, political importance and economic value initially desired. This does not mean that Cyprus was any different to the many other British colonies and overseas possessions, but it did not have the same value as other Mediterranean possessions, such as Malta

and Gibraltar.

British Liberals (as well as naval experts, see Martin, 1879) had always questioned the wisdom of occupying Cyprus and had identified it not only as inconsequential but as a burden on the British taxpayer (see Varnava, 2009, chapter 4). But during the Liberal government (and later the Coalition during the war) from 1907 this questioning went much further. It became set in the minds of most senior ministers that Britain should cede Cyprus to Greece in order to obtain other advantages. Indeed for Foreign Secretary Edward Grey, Cyprus was (in 1908) 'of no use to us and the Convention respecting it an anachronism and encumbrance, I would therefore give the island away in return for any better arrangements we could obtain. Indeed bargain or no bargain we should be better without Cyprus' (Varnava, 2009, p. 249). This resulted in proposals, led by First lord of the Admiralty, Winston Churchill, to cede the island to Greece in 1912 in order to obtain the naval upper-hand in the Mediterranean against Austria (Britain would obtain the naval use of the island of Cephalonia). Subsequently, there followed the failed official offer to cede Cyprus to Greece in October 1915 in exchange for Greece immediately entering the war (Varnava, 2009, chapter 8). The efforts to cede Cyprus to Greece would not have transpired had Cyprus been a vital strategic British possession. Varnava (2009, pp. 261–265) agreed with Meyer (1962, pp. 7–8) who noted that the rejection of Cyprus by Greece meant that it had joined 'England and Turkey on the list of nations whose interest in Aphrodite's isle could be termed less than vibrant'.

The 'temporary' nature of the British administration also impacted upon all areas of the development of the island. According to the Cyprus Convention, Britain's occupation was provisional and conditional. It has been suggested that the 'temporary' nature of the British occupation of Cyprus discouraged private and public investment in the island's economy, as there was no guarantee that such investment would be recovered in the event that the British evacuated it (Hill, 1952; Adams, 1964).

But the main reason for the lack of public and private investment was the requirement that Cypriot revenue pay an annual 'tribute' in respect of the defaulted Ottoman Crimean War Loan, which it (and France) had guaranteed. The amount of the annual tribute was eventually agreed at a fixed, annual payment at £92,799, although it could have been much lower had the rate of exchange of 1881 been taken in that year when the rate was agreed and not that of 1878 (Varnava, 2009, pp. 129–132), resulting in a subsequent Governor of the island, Ronald Storrs, claiming that the calculation was made with 'all that scrupulous exactitude characteristic of faked accounts' (Storrs, 1937, p. 489). Clearly, with total revenue from Cyprus reaching about £150,000–£200,000 per annum, then if payment of the annual tribute was required, important infrastructural and development works could not be undertaken. As Varnava (2009, pp. 129–132) noted the tribute came first in all matters pertaining to finance and reducing expenditure in Cyprus was a cornerstone of British policy. Writing at the turn of the twentieth century, a member of the Cyprus Legislative Council described the annual tribute as 'the heavy millstone round our neck [which] stopped all progress in the Island and which has prevented the carrying out of such

measures as would promote the welfare of the Island' (Chacalli, 1902, pp. 42–43). In simple terms, a significant portion of tax revenue in Cyprus was transferred to the British Treasury, with no gain for the island and this continued, admittedly with some reduction in 1907, until 1927. Thus, under the first years of British rule the engine of economic development – public and private investment in worthwhile capital projects – was not activated.

Serious government investment on development projects did not occur until the Colonial Secretary, Joseph Chamberlain (1895–1903) attempted to invest in hitherto neglected backwaters of the British Empire. His aim in Cyprus was to lift its 'inconsequence' by increasing agricultural production and exports by investing in various works through a £314,000 loan under the 1899 Colonial Loans Act: £60,000 for irrigation; £124,000 for Famagusta harbour; and £130,000 for a railway from Famagusta to Nicosia (Varnava 2009, pp. 139–145). These infrastructure projects stimulated growth in agricultural production and trade and brought increased prosperity to the people of the island. In turn, this additional government spending fuelled a demand for individuals well versed in book-keeping both within and outside the government sector. Aligned to this improved prosperity was the growth in population with the official census of population for 1881, 1891, 1901 and 1911 showing a significant rise in population, from 186,173, to 209,286, to 237,023 and 274,108 respectively. The rising population generated growth in commercial/accounting occupations, as reflected in the dramatic increase in the number of clerks from 282 in 1901 to 1,218 in 1911, and bank employees from a mere 11 in 1901 to 57 in 1911, as well as 25 as bankers or brokers. This upturn in the private sector was reflected, albeit to a lesser extent, in the government sector, with the civil service growing from 769 employees in 1901 to 847 in 1911 (Census of 1901 and 1911). This development will be discussed further later in this article in connection with the establishment of savings banks and the co-operative movement.

The Administrative System in Cyprus

The nature of the British occupation of the island placed various limitations on the administration, such as the retention of numerous Ottoman laws, including the Ottoman Commercial Code of 1850, and this was compounded by the island being a backwater because of little development and reform, except to the judiciary. Prior to the start of World War I, aspects of the Ottoman Commercial Code were being replaced through the passing of other laws. More broadly in the British Empire there had been a push to facilitate imperial co-operation and harmonising laws was taken up at both the 1907 and 1911 Imperial Conferences in London. In 1911 it was agreed that it was in the best interests of the Empire that there should be more uniformity throughout its centres and dependencies in the law of companies (Graham, 1929). The (UK) Companies Act of 1862, which was amended in 1900 and 1907, and then consolidated in 1908, was introduced to all British overseas possessions by 1917 except for Bermuda, Gibraltar, Malta, Newfoundland, the Seychelles, Egypt and Cyprus. Of these, Bermuda, Gibraltar and Malta were pivotal naval bases for the Empire and possessed little other advantages. In addition, all of

these territories, with the exception of Egypt had relatively small populations and trade was not the main purpose behind British imperialism in them. In the case of Cyprus, such legislation was only introduced after World War I, largely because of Cyprus' inconsequential nature: neither a trading centre, nor a strategic asset. Cyprus was left out of the process of transferral of commercial law, along with those other possessions listed, reflecting both the inconsequential nature of Cyprus' place within the British imperial system and the slow development of accounting.

Sir Charles Orr (1918, p. 177), the Chief Secretary in Cyprus from 1911 to 1917, claimed that in order to establish a British model of government, the services of a trained bureaucracy was necessary and he suggested that 'not a sparrow can fall to the ground without a report of the circumstances – probably in triplicate – eventually appearing on the table of the Chief Secretary to the Government, and being submitted to the High Commissioner for his information'. Part of this bureaucracy included the services of (English-speaking) administrators, some of whom needed to be well-versed with basic transaction-recording systems – admittedly primitive in that the records maintained reflected cash receipts and cash payments. The British transaction-recording system was based on the double-entry accounting system, supplemented by the use of the English language rather than the Ottoman *Merdiban* (Stairs) system which relied on Arabic text.

Soon after taking administrative control of the island, the British appointed their first Auditor General in February 1879 (Rokopou, 2002). The British focus on accounting systems and accountability was highlighted by the publication in the *Cyprus Gazette* (and in some local newspapers) of audited financial statements of government activities since, under the Constitution of 1882, the preparation and auditing of government accounts was mandatory. For instance, under the Municipal Councils' Ordinance (1882) the 'accounts' of the various municipal authorities were published at regular and frequent intervals, typically for a six-month period. They were produced in a timely fashion as, for example, the 'accounts' for the Nicosia district for the six months ended 31 December, 1887, which were published in the *Cyprus Gazette* on 22 February, 1888. The timeliness of these publications was facilitated by the nature of the financial disclosure – a 'Statement of Receipts and Expenditure' – what would be referred to in modern times as a statement of cash receipts and cash payments. These statements were basic in that they contained less than 10 items of receipts and 10 items of expenditure, together with the opening and closing (cash) balance on the account. A balance sheet was not published. A reasonable explanation for this omission is that the balance sheet was largely irrelevant for a municipal authority whose transactions consisted mainly of tax receipts and various items of cash expenditure of a current nature. Indeed, if there were capital expenditure items they were treated for reporting purposes as being current in nature. The 'accounts' were audited by two persons – usually one Greek Cypriot and one Turkish Cypriot. The typical auditors' report was worded as follows: 'We certify that we have examined the accounts ... and that the above is a correct statement of its receipts and expenditure during the (6-month) period' (*Cyprus Gazette*, 24 February, 1888, p. 1121). The

maintenance of all these financial records required individuals properly trained in basic accounting techniques, together with knowledge of the English language. It is interesting to note that accounting frauds occurred. A case in point was in 1896 when the cashier/accountant in the Public Works Department, a Mr Griffin, was charged with embezzlement. The High Commissioner wrote that in the 'course of the enquiry into the charges, the accounts of the department were found to be in such a state of confusion that it was impossible to say how much of the deficiency was due to fraud, and how much to muddle' (see CO 67/98/6463, CO 67/98/6444, No. 61, and CO 67/98/7413, No. 70). It is likely that the unfavourable publicity of such frauds emphasised the necessity of book-keeping skills and the job opportunities for such clerks who spoke English.

Yet the government's cost-cutting efforts saw accounting staff reduced, negatively impacting upon the development of accounting in the island. During the nineteenth century the main department in the Cyprus colonial bureaucracy, after the Treasury, that required skilled accounting was the General Engineer's Department (later renamed the Public Works Department). Samuel Brown headed this department from 1880–1889 and did great work under trying financial circumstances, planning and constructing the road network, piers at Larnaca and Limassol, and the redevelopment of Kyrenia Harbour (Varnava, 2009, pp. 134–139). But Brown came into conflict with the high commissioner, Henry Bulwer, when the latter wanted to reduce Brown's budget to a mere £10,000 a year, primarily by merging the roles of the accountant and draughtsman, with the latter doing both jobs, resulting in a saving of over £200 a year. Brown objected citing that his department was already spread thin; undertaking tasks that Bulwer did not even give them credit for. Brown explained that it was unwise to merge the roles of the accountant, who belonged to the clerical staff, with that of the draughtsman, who belonged to the technical branch. Brown and the superintendent of works were constantly travelling across the island, leaving the draughtsman to superintend the workmen, workshops and the works on buildings and roads in Nicosia, while he was also often sent into the interior of the district to make surveys. But the Colonial Office supported Bulwer. Quite clearly, the pressures of keeping to the tough budget negatively impacted upon the accounting function, which was the first in line to be cut, as it was clearly assumed that a draughtsman could 'do sums', and so there was little encouragement for accountants (See CO 67/44/2481; CO 67/46/11126; Varnava, 2009, pp. 137–138).

When Brown left the island, accounting in the Public Works Department took a further turn for the worse. As mentioned above, in March 1896, Mr Griffin, the cashier and accountant in the Public Works Department, was charged with embezzlement. Cheques upon the bank account were drawn upon the signature of the officer in charge, a Mr Cunningham. On 13 March, Walter Sendell, the high commissioner, subsequently informed Joseph Chamberlain, the Colonial Secretary of the enquiry into the charges and on 14 March Sendall reported to Chamberlain that Griffin had been committed to stand trial, yet wanted Cunningham treated leniently because he had 'no capacity whatever for accounts'. Cunningham had worked for Brown as his Superintendent of Works, a position he was 'well suited' to, but when Brown left, he 'lapsed into

the position of responsible head of a spending department, rather than to have been selected for it on account of any special fitness'. Sendall wanted to keep him for practical work (See CO 67/98/6463, CO 67/98/6444, No. 61, and CO 67/98/7413, No. 70). The fact remains that Cyprus obviously lacked the ability to attract someone of the quality of Brown, and did not have local talent to turn to in relation to accounting. If Cunningham had the accounting skills, he would have detected the frauds committed and at the very least limited their extent. This is partly the responsibility of the government for failing to acknowledge the importance of accounting skills, and partly owing to the lack of education in the island to allow people to acquire accounting skills.

Changes in Education

Under Ottoman occupation, very little money was spent in Cyprus on education and school participation rates were low. For example, Orr (1918) discloses that official education reports for 1879 indicated that only about 5% of those aged between 5 and 15 years received any formal schooling. However, after 1878, the British soon began to reform the (elementary) school system by providing, not only public funds, but also specifying the curriculum subjects to be taught which included mathematics, geography, singing, calligraphy and gymnastics, with the full course lasting six years. In 1905 it was noted that the elementary schools of Cyprus had made great strides since the days when a 'chaotic state of affairs' prevailed (Board of Education, 1905). Nevertheless, according to the census of 1911, three-quarters of the population of the island was totally illiterate (Census, 1911).

Around the turn of the twentieth century, it was obvious to many Cypriots that there were good employment opportunities in government for those who possessed book-keeping skills, together with the knowledge of the English language. The realisation that these two skills could be an important means to social mobility has also been described in other British possessions around that time, for example, in Ireland (Clarke, 2008) and Australia (Craig *et al.*, 2004). Book-keeping skills can be described as a 'badge of class distinction' but, in more practical terms, they cannot be stolen like moveable possessions, they have permanency in the sense that they are not subject to wastage, and they are easily portable to different locations. Around this time commercial subjects were added to their curriculum of schools in Cyprus. The English School, founded by Canon Newham in 1900, had a curriculum that focused on modern languages and commercial subjects, such as shorthand, typewriting and book-keeping, with its students being prepared for the Cyprus Government service and for commercial careers (Orr, 1918, p. 134). Four other schools emerged before World War I, specifically geared towards commercial education which included and highlighted book-keeping / accounting subjects.

The American Academy in Larnaca was founded by two missionaries, Reverend Walter McCarroll and his wife, of the Reformed Presbyterian Church of North America. They secured permission to open a secondary school for boys and, in 1908, they founded the American Academy in Larnaca (Damala, 2008). The school 'was established for the training of native

workers for the evangelization of their own people' (Reformed Presbyterian Church, 1911, p. 56). This objective would be achieved by obtaining commercial jobs in local firms which would provide the necessary interaction to facilitate the evangelisation of fellow workers. Like this, book-keeping/accounting knowledge would be used as an indirect route for the evangelisation process within Cypriot organisations. By the 1920s the graduates of the American Academy were obtaining positions throughout the British Empire, such as Nicolas Michaelides, a graduate of 1923, who obtained a job as a clerk in Western Africa with a yearly salary of £240 (and accommodation) because of his efficient knowledge of 'commercial branches' developed at the Academy (Damala, 2008, p. 29). The prospectus of the American Academy at that time indicated that instruction in book-keeping and accounting was well imbedded in the curriculum. For instance, in order for students to enter the second year of the programme, students had to pass written examinations in Pitman's *Primer of Book-keeping*, pages 1 to 100, and admission to the third year required passing exams on the entire Pitman book. There were two periods devoted to book-keeping in the first year and three periods in the second, third and fourth years; two periods in both the third and fourth year for Commercial Correspondence; and two periods of typewriting in the fourth year (Damala, 2008). Another school which would excel at teaching commercial subjects in Larnaca was the Pancyprian Lyceum, which was founded in 1911. Another school, the Mitsis Trade School, was founded in 1912 at Lemythou by the benefactor, Demosthenes Mitsis. The purpose of the school, which admitted only male students, was to provide a solid training in trade and the general language of studying and instructing was English. The Mitsis School had a reputation for high quality teaching and its graduates found jobs with relative ease, especially in the civil service of Cyprus (Lemythou, website, 2013).

The Turkish Lyceum in Nicosia was also important in the teaching of book-keeping/accounting around the turn of the twentieth century. For example, its curriculum for 1905–1906 included book-keeping procedures (*kitabət*) and in 1910–1911 accounting (*muhasabe*) was also taught (Oksuzoglu, 2008). The availability of the study of the book-keeping discipline in this school during the 1905–1906 academic year is interesting since this predates the teaching of this subject at either the American Academy or the Pancyprian Lyceum. Indeed one of the early book-keeping teachers at the American Academy in 1927–1928 is listed as 'A. Faik' and he was described as a graduate of the Turkish Lyceum and also a graduate of the La Salle Extension University (Damala, 2008). The La Salle Extension University was a distance-education institution based in Chicago, which provided a wide range of correspondence courses in business and had extensive courses in book-keeping and accounting (La Salle Extension University, 1922).

The Creation of Savings Banks and the Co-Operative Movement

The links between investment, job opportunities, education, and more money, in relation to earnings, savings and borrowing, are obvious. During Ottoman rule the only bank on the island was the Imperial Ottoman Bank, a joint venture of British and French interests, which opened a

branch in Larnaca in 1864. Although Cyprus was overwhelmingly an agricultural country, with 70% of total exports representing agricultural produce in the late 1880s, the Bank provided little finance to the Cypriot peasants who were in constant need of funds. Phylaktis (1988, p. 418) noted 'crops were subject to the vagaries of the weather and Cyprus suffered regularly from droughts. Furthermore, the corn was ground by water-mills, so that in a time of drought there was not only scarcity of water, but also of bread. The peasants, in addition, were burdened with tithes on all agricultural produce'.

The first local banking institution was established in January 1899 as the Nicosia Savings Bank (subsequently renamed as the Bank of Cyprus) by a group of Greek Cypriot political elites, including the prominent local lawyer Ioannis Economides, who was also a member of the Legislative Council and the doctor Antonios Theodotou. Its first Board of Directors consisted of 11 local merchants, two medical doctors, a teacher, a lawyer and a merchant's clerk but there was a notable absence of formally designated accountants (Bank of Cyprus, 2010). Based on the Italian Popular banks, this institution aimed to mobilise the savings of the small depositors which included weavers, shopkeepers, teachers, clerks and housewives. The bank was well-managed; general meetings at which directors were elected and dividends approved, were announced in the local press and balance sheets were published twice a year. The early auditors of the Bank were a commission agent and a merchant's clerk. Following the example of the Nicosia Savings Bank, other savings banks were established in Nicosia, Limassol and Larnaca within a few years and the government, subsequently, set up its own savings banks in each of the six principal towns in 1903 (Phylaktis, 1988). The establishment of the savings banks and growth in depositors, created greater awareness of the basic principles of accountability through the publication of financial statements which were also audited and were routinely published in the local papers. In addition, the growth of savings banks necessitated the employment of clerks with basic accounting skills.

The creation of savings banks was followed by the establishment of co-operative societies, which also necessitated the employment of skilled accounting staff. Wolff (1910) indicates that towards the end of the nineteenth century, there was a remarkable advance and extension of the practice of co-operative credit, not only in the British colonies, but in other countries such as Germany, Finland, Italy and Belgium. Indeed, in his review of such developments, Wolff (1910, p. viii), somewhat sarcastically comments that 'even Cyprus is moving on the same tract'. A subsequent study on co-operative banks around the world (Herrick and Ingalls, 1914) reports that the first cooperative bank in Cyprus was established in December (1909) in the small village of Lefkoniko, under the name of Lefkoniko Savings Bank. We know from other sources (Bank of Cyprus, 2010) that this bank was formed under the initiative of Mr. Economides, who was born in the region and was President of the Nicosia Savings Bank. Wolff (1910, pp. 413–414) describes the Lefkoniko bank as having 'a careful election of members ... a managing committee, a council of inspection and unlimited liability'. The feature of unlimited liability of the members for the debts of the society is particularly significant. Co-operative societies were owned and managed by their

members only and their main activity was to accept deposits by, and grant loans to, their members (Argyridou-Dimitriou and Kanaris, 2012). So, in order to prevent the risk of financial collapse, these would have to be properly managed by individuals with appropriate accounting knowledge.

Very soon, similar co-operative societies were set up in other villages and these became regulated in 1914 when the Co-operative Credit Societies Law was passed. This legislation further confirmed the need for accounting information as every society had to 'make available its latest balance sheet and any report of the auditors open to inspection free of charge at all reasonable times at the registered address of the society' and the 'registrar shall audit or cause to be audited by some person authorised by him ... the accounts of every registered society once at least in every year' and the audit shall include 'an examination of overdue debts, if any, and a valuation of the assets and liabilities of the society'. The emphasis on the Balance Sheet – the statement of financial position – while common to that era, was understandable since the legislation provided that the 'liability of each member of a society for the debts of the society shall be unlimited' (Co-operative Credit Societies Law, 1914). With each member's exposure to unlimited liability for the debts of the society, it was important that the solvency of each society was properly revealed by the publication of the society's balance sheet. Although, it may well be that many members did not fully understand the potential adverse implications of this 'unlimited liability' provision but it would have stimulated discussion about the legal implications of basic accounting matters among members. In consequence, the development of savings banks banking and co-operative movement was a further step in the process of developing accounting practices.

The Great War

When the Ottoman government entered World War I on the side of the Germany, Britain declared war on the Ottoman Empire and within days annexed Cyprus. During this period the island enjoyed its first economic boom under British rule. The geographical location of Cyprus and the fact that its primary industry was agriculture made it a convenient base from which the Allied forces in the Near and Middle East could draw supplies and the Cyprus government implemented policies that increased the production of cereals and other food-stuffs. However, one war-related issue highlights the difficulty, at that time, of recruiting clerks with appropriate accounting skills: the formation and administration of the allotment scheme of the Cypriot (or Macedonian) Mule Corps.

In summer 1916 the Cyprus government and the military authorities established the Cyprus Mule Corps and some 10,000 Cypriots served in it, first in Salonica, and after the armistice, in Istanbul and Chanak, between 1916 and 1920. The Cyprus government played a pivotal role in the establishment and running of the mule corps, including the distribution of money allotted to the dependents of muleteers. The scheme, which was a major theme of recruiting, allowed muleteers to allot a certain amount (up to 60%) of their wage of three pounds sterling and twelve shillings per month, to their dependents. Since the man going was usually either married, and therefore

solely responsible for his wife and children, or the eldest son, and that being so, partly (although sometimes solely) responsible for maintaining his parents and siblings, the allotment scheme was a significant inducement for the vast majority of the men who volunteered. Allotment schemes were usually run by the military, and this was the first time that it was the responsibility of a colonial government. This would have tested the best of any colonial treasuries, let alone a disadvantaged one such as that found in Cyprus (see National Archives, War Office 405/1 and State Archives Nicosia, Secretariat Archive 1/722/1916).

Indeed this was the case, since the Cypriot government and its civil service, which were administering the scheme, struggled too (see National Archives, War Office 405/1 and State Archives Nicosia, Secretariat Archive 1/722/1916). The difficulties in implementing the allotment scheme were due to two factors. First, the civil administration and the military authorities could not agree on a scheme and its implementation. Second, and more importantly for the purposes of this paper, the Cypriot treasury lacked enough qualified staff with accounting skills to undertake this important task. Hence, in March 1917 the Treasurer informed the Chief Secretary that they needed a better trained staff to operate the allotment scheme to reduce the elementary accounting and book-keeping mistakes which had been made (see National Archives, War Office 405/1 and State Archives Nicosia, Secretariat Archive 1/722/1916).

Additionally, the wages of the members of the Cyprus Mule Corps – both because of the allotment scheme or simply the money they brought back with them – meant more money in the island and, that being the case, a greater need for accounting skills and more work for accountants. The fact that there was more money was evidenced by the massive increase in total deposits in both local and foreign banks and co-operatives in Cyprus from 137,261 in 1915 to 446,366 in 1920, an increase of 225%. That the war, both in relation to the exporting of commodities but also the Cyprus Mule Corps wages played a role in this is supported by the fact that this pattern was repeated in World War II, when there were even more Cypriots serving in the British armed forces, with an even greater increase occurring from 2,038,729 in deposits in 1938 increasing to a massive 9,840,186 in 1946, an increase of 383% (Phylaktis, 1988). That there was a correlation between the increased money and the demand for accounting skills was verified by the increased careers in the field relating to accounting from the 1911 Census to the 1921 Census, because in the 1921 Census there were 204 people registered as bankers or brokers (including their employees), while in 1911 there had been a mere 82 (Census of 1911).

Conclusion

This article has explored two important issues in relation to the accounting history of Cyprus: the transition from Ottoman (c. 1850–1878) to British rule (1878–1918) in order to identify the changes in the development of accounting practices under these differing imperial systems; and secondly and most chiefly, the nature of those changes and what influenced them and vice versa.

This has meant that the period in focus, the 1850s until the end of the Great War, constituted the 'source phase' of the theory proposed by McKinnon (1986), and therefore the beginning of accounting practice in both the public and private sectors. This signifies that there was little accounting practised in the island by comparison with other British overseas possessions, especially those where company law had been introduced, largely because there was little necessity, yet the article has shown that the demand for accounting did increase with the turn of the century because of the development of Cypriot economic opportunities under British rule.

There was a growing demand for accounting skills in Cyprus from the 1850s under Ottoman rule. This was largely due to the absence of industry and trade, as well as government regulation. The lack of accounting makes the period important when compared to the increased demand after the British arrival, and especially at the turn of the century. Also important was the *Merdiban* transaction recording system used under Ottoman rule, because this was replaced by double-entry accounting during the British occupation.

The history of accounting practice must be viewed in the context that Cyprus was a small island and became an 'inconsequential possession'. When Joseph Chamberlain became Colonial Secretary significant investment was made in infrastructure development. These works generated jobs and money, resulting in the formation of savings and co-operative banks, which required staff with accounting skills. Commercial organisations remained of a small size; there was little company legislation necessitating accounting information, and an absence of equity markets. In effect, in an accounting sense, the Cypriot economy, during the period of British rule (1878–1918), primarily called for book-keepers to satisfy basic accounting needs. The lack of accounting skills in the island, especially in the civil service, was felt during the Great War when the Cypriot government undertook to implement a complicated and large allotment scheme for Cypriot muleteers. Significant progress in terms of the growth in accounting practice, the presence of professional accountancy firms and, ultimately, the formation of a local accountancy profession and the introduction of accounting standards would only take place in a time period beyond the scope of this paper (see Clarke and Varnava, 2013), that is to say, during the inter-war years.

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