



Cost accounting in early regulated markets: The case of the Royal Soap Factory of Seville (1525–1692)

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Abstract

Regulated markets and state-owned monopolies characterized the economies of many Southern European territories around the end of the Middle Ages and during the Renaissance. Although this economic form was of considerable importance in implementing public policy at the time, investigation into the functioning of cost accounting in such contexts has been consistently neglected in accounting research. In this paper, we examine the role of cost systems in early regulated markets by focusing on the case of the soap production and distribution monopoly in the City of Seville, Spain. In 1423, the King of Castille granted the soap monopoly to the Duke of Alcalá as a reward for his war achievements, but pricing decisions rested in the hands of the local government. Disputes between the Duke of Alcalá and the local government (the parties) about the fair price of a pound of soap were negotiated after the development of tests that replicated the soap production process and determined its cost through complex calculations. Drawing on the insights of institutional sociology, we found that the test and its accompanying cost calculations provided credibility to the parties before their external constituents. Our data also revealed that the parties engaged in active agency with the King of Spain in order to shape the constitutive elements of the tests in their favor. In this way, they were able to manipulate to their own ends the use of newly purchased versus inventoried materials in the soap test and to incorporate into the total cost what

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present-day terminology would call the opportunity cost of the buildings, investments in inventory and machinery, and various employee expenses not previously considered.
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1. Introduction

Research on 18th and 19th century organizations has enhanced extant knowledge about the role of early cost systems in the public sector and of firms operating under monopolistic conditions (Hoskin and Macve, 1986, 1988; Carmona et al., 2002). However, the limited intersection between the time span and the focal settings of these investigations has restricted the diversity of issues under investigation and constrained research advancements in this area (Meyer, 1986). Paraphrasing Scott (1995, p. 146), it would be difficult, if not impossible, to discern the causes and consequences of the implementation of early cost accounting systems if all our cases were embedded in the same or similar contexts. Therefore, different strands of historical research in management accounting concur that we still have much to learn about the extent to which early cost systems met the demands of organizational objectives in varying circumstances (the Economics-Based School: Boyns and Edwards, 1997b; the Foucauldian School: Hoskin and Macve, 2000). In particular, we argue that an examination of the ways in which cost calculations mediated the enforcement of monopolies and regulated markets in many Southern European territories during the Middle Ages and the Renaissance could augment our understanding of the role of such systems in mature, 19th and 20th century public sector organizations (Covaleski and Dirsmith, 1995; Carmona and Macías, 2001) and the interrelationship between accounting and the state during the Renaissance (Miller, 1990).

Archival evidence supporting this investigation is gathered from the Royal Soap Factory of Seville (*Reales Almonas de Sevilla*—RAS),¹ which from 1423 to 1811² enjoyed the royal privilege of being the sole producer and purveyor of

¹ Archival evidence comes from the *Archivo Ducal de Medinaceli, Sección de Alcalá* (Archive of the Dukedom of Medinaceli, Alcalá Section—ADMSA) and the *Archivo Municipal de Sevilla* (The Municipal Archive of Seville—AMS). We have also gathered primary data on some aspects of the wider contexts of our investigation from the *Archivo General de Indias* (The General Archive of Indies—AGI). The archives are well preserved and free access is provided to researchers. Fortunately, ADMSA and AMS are specialized archives that contain records of the perspectives of the RAS and the local government of Seville, thereby enabling us to cross-check the consistency and reliability of our data sources. The archives do not contain information on the overall financial accounting system of the RAS, and it is therefore impossible to determine the firm's profits during our observation period.

² The soap monopoly lasted until August 6, 1811, when the Spanish Parliament abolished private monopolies.

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