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THE HISTORY OF FINANCIAL REPORTING IN THE UNITED KINGDOM

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# Introduction

As the birthplace of the Industrial Revolution, the UK was one of the first countries to develop large enterprises organised as corporations, with ownership interests traded on stock exchanges and separation of ownership from managerial control. Hence, at a relatively early stage, the UK had to deal with the problem of how managers could be held accountable to owners for their use of capital invested in firms. Yet, because early attempts at regulating companies took place in the nineteenth century, at a time when philosophies of *laissez faire* were dominant, both Parliament and the courts preferred to leave the regulation of the relationship between owners and managers as a matter for private contract, rather than legal statute. Rejection of formal regulation, and a preference for “gentlemen’s agreements” or for the pressure of market forces to ensure effective corporate governance, remains an important practical as well as rhetorical influence on UK corporate financial reporting. At the same time, however, at least since the end of the Second World War, gaining momentum in the late 1960s, and with increasing emphasis since the 1990s, financial reporting has been subject to an ever-growing volume of regulation, in the form not only of company law but also of financial reporting standards, originally national, but since 2005 the pronouncements of the International Accounting Standards Board.

Although formal regulation of financial reporting was limited during the formative years of the nineteenth century, companies published annual (and in some cases semi-annual) financial statements so that boards of directors could demonstrate how investors’ capital had been used, and to justify payments of dividends. Companies in some economically significant industries, such as banks, insurance companies and railways, were subject to statutory reporting requirements even at a time when these did not apply to the generality of companies. The emergence of a profession of accountancy by the mid-nineteenth century, and the first university courses in accounting by the 1890s, provided a cadre of reflective practitioners who helped to develop accounting principles and conventions. Individuals with a background in professional accountancy practice continued to be the main contributors to the development of UK accounting regulations until recent years.

# Early influences

The governmental administrations of the Norman kings of England, from 1066, developed systematic modes of financial accountability and record-keeping. The Domesday Book (1086) provided a detailed survey of the economic resources and feudal rights and duties within England, while the Exchequer, extant by 1110, ensured that the king’s representatives in each county, the sheriffs, provided a personal accounting for the revenues they had collected on behalf of the crown and how these revenues had been disbursed. The sheriffs’ oral accounts would be heard, in a literal “audit”, by the Barons of the Exchequer, and a record kept of the receipts and payments. The Exchequer system, often referred to as “charge and discharge”, was imitated by many English feudal lords, both ecclesiastical and lay. The system was designed to hold individuals responsible for the receipts that they were expected to collect (such as rents and feudal dues) – the “charge” – and for how they had spent these receipts, or paid over any surpluses – the “discharge”. Surviving accounts are records of the audit process rather than contemporary running records of receipts and payments, and demonstrate the main objective of holding “stewards” (officials entrusted with resources and with the collection of revenues) accountable to their superiors for the surplus of receipts over expenditures. The charge and discharge system is thus one of personal accountability, and it persisted into the nineteenth century in various contexts, most significantly on the estates of the British aristocracy.

Records of trading and manufacturing ventures from medieval England are scarce in comparison with those of agricultural activities. Italian merchants were active in London and some other cities, and there is evidence that they may have used early forms of the double-entry system of bookkeeping. However, it is unlikely that indigenous English merchants used double-entry before the sixteenth century, when the first printed books in English on double-entry (known as the “Italian method”) began to appear. The legal concept of the corporation, as an artificial person existing separately from its members and continuing to exist even though its members changed, was known in the medieval period, but tended to be restricted to public or religious bodies, such as cities and boroughs, cathedrals, abbeys and colleges. By the end of the sixteenth century, however, the corporation form was beginning to be used for business entities, usually established by royal charter and having specific monopoly rights. The most famous of these chartered corporations was the East India Company, chartered in 1600. The company was originally run as a series of individual trading ventures, each with its own “joint stock”, and with profits being determined at the end of the venture by reference to the cash surplus over the initial amounts invested after all the assets of the venture had been liquidated and all liabilities paid off. Surviving financial statements from the early years thus tend to be statements of receipts and payments. However, as the East India Company became more established, the system of separate ventures became increasingly inconvenient, and the company adopted a system of permanent investment in its “stock”, which could be bought and sold on the emerging London stock market. Stockholders were paid regular dividends, and the financial reports were designed to demonstrate that the dividends were being paid out of profits rather than out of capital. Internally, the Company used double-entry for its accounting records. Although the East India Company allowed stockholders to inspect its accounting records periodically, the Board of Governors preserved a high degree of secrecy over its financial affairs, and this led to occasional financial scandals and, in reaction to these, public criticism and calls for investigations of the Company’s financial position. From an accounting point of view, the East India Company’s practices show a shift from regarding the business corporation as a means of making a return *of* capital, plus a surplus, to owners, to seeing it as making a return *on* capital in the form of regular dividends.

As capital from agriculture and international trade began to accumulate, the “joint stock company” became increasingly popular as a means of investing surplus funds. The Bank of England, chartered in 1694, was only one of around 140 companies in existence in the 1690s. These companies were usually created through special acts of parliament, or through gaining a royal charter (which often conferred special privileges such as monopoly rights), and hence were corporations with separate legal identity from their owners. A less formal mode of organisation was to establish the company through a “deed of settlement”, a form of trust. Accounting and reporting provisions were generally included in the documents establishing a company, requiring the company to keep proper books of account and to make these, or statements based on the books such as a balance sheet, available for shareholder inspection at the time of the annual or semi-annual general meeting of the company. The influence of trust law was sometimes made explicit by including a requirement that dividends could not be paid out of the capital of the company, only out of profits. Detailed recognition and measurement rules were, however, not provided.

After two decades of rapid economic growth and development of the financial sector, the “South Sea Bubble” of 1719-1721 led to restrictions on the creation of companies that inhibited developments for the next hundred years. The South Sea Company, a trading monopoly, made an offer to take over the British national debt. This offer led to significant speculation in the Company’s stocks, and to the passing of the “Bubble Act” (the Royal Exchange and London Assurance Corporation Act 1720). This law prevented company promoters from setting up companies unless they obtained a special act or a royal charter, and limited partnerships to a maximum of six members. Deed of settlement companies became much more difficult to establish as a consequence of this legislation. However, in practice, it is unlikely that the Bubble Act constrained economic growth, since few enterprises required more capital than could be raised from the family and close friends of an entrepreneur.

Larger enterprises such as roads and canals usually had the backing of landowners, who dominated parliament, and thus could secure special acts or charters. The rudimentary requirements to keep accounts and to report to members were often copied from one document to another as the specialist draftsmen who put together the acts borrowed from earlier legal precedents. Many of these draftsmen were “Chancery” lawyers, who specialised in the law of settlements. A strict settlement was a form of trust, normally over land, that was popular with the British aristocracy between the seventeenth and twentieth centuries. The income from the land was paid to a “life tenant”, who was expected to maintain and ideally to improve the land for the benefit of future generations. The land itself could not be sold or given away, but would be transferred on the death of the life tenant according to the terms of the settlement. Settlements therefore had to distinguish between income and capital, since different people had claims on these two elements. Towards the end of the eighteenth century, many canal companies were incorporated by acts of parliament, and these companies adopted the “double-account” method for their periodic financial reports. This method was grounded in the strong distinction between income and capital drawn from the strict settlement. The money raised by a canal company from its shareholders would be credited to the capital account, and the cost of buying land and constructing the canal would be debited to this account. When the construction was complete, the capital account would be “closed”, and operating receipts and payments would be included in an income or revenue account. Rather than systematic depreciation or amortisation of the canal’s cost, the revenue account would be debited with repairs and maintenance. Dividends would be based on the surplus on revenue account and thus would be approximately equal to net operating cash flows.

# The nineteenth century

## The coming of the railways

If the canals required substantial amounts of capital, the railways demanded vast investments. Railway companies incorporated through acts of parliament not only to gain powers of compulsory purchase of land but also to ensure that shareholders were protected in the case of corporate failure through limited liability. This meant that shareholders were liable only for the nominal value of the shares that they owned (shares were often issued “partly paid”, so that shareholders would remain liable for any “uncalled capital”), rather than for the full amount of the company’s debts. The early railway company acts became highly detailed, since those involved in promoting and managing such “statutory” companies wanted to ensure that rights and obligations were stated precisely, and the acts included requirements relating to keeping accounting records and reporting to shareholders. In 1845, at the height of the “railway mania”, parliament passed the Companies Clauses Consolidation Act, which provided model regulations that applied to all subsequent statutory companies.

Railway companies were required to appoint a bookkeeper, who was responsible for entering the company’s transactions in account books. Railways tended to use a complex hierarchy of subsidiary account books based around activities at individual stations or depots, and abstracts of the accounts would be periodically sent to the railway’s head office. Every six months, “an exact balance sheet shall be made up, which shall exhibit a true statement of the capital stock, credits and property of every description belonging to the company, and the debts due by the company at the date of making such balance sheet, and a distinct view of the profit or loss which shall have arisen on the transactions of the company in the course of the preceding half-year.” Auditors were appointed from the body of shareholders to examine the accounts. These “representative shareholders” were not expected to have accounting expertise, but could employ professional accountants to undertake the detailed examination of the accounts on their behalf. The balance sheet would be signed by directors and tabled at the general meeting of the company. The accounting statements were normally reproduced in one or more of the widely circulated railway periodicals, such as John Herapath’s *Railway Journal*, and most companies printed the accounting statements and mailed them to shareholders.

The accounting legislation did not include detailed rules on the presentation of the financial statements or on the recognition and measurement of items. The use of terms such as “exact”, “true” and “distinct” seem to suggest that parliament believed that financial reporting was a straightforward representation of an underlying economic reality, with no scope for manipulation. However, some promoters and managers of railway companies were able to exploit the lack of regulation to report high profits and thus pay high dividends. The double account system provided some opportunities for this, since there was no well-articulated principle that made clear which items of expenditure should be charged against capital and which against revenues. The practice of the most highly respected companies was to debit the cost of buying land, constructing the permanent way and acquiring the initial rolling stock to the capital account, with subsequent costs relating to repairs and renewals charged against revenues. The ideal aim was to “close the capital account” when the construction of the railway was complete, with all subsequent receipts and payments passing through the revenue account. However, in practice, large railway companies were constantly building new lines, while replacing tracks and rolling stock with technologically superior equipment. The problem of accounting for “betterment” in a double account system had to be addressed, and some companies would split the cost of new assets between pure replacement, charged against revenue, and improvements, charged against capital. Clearly, this split accounting could be exploited by charging the whole cost of renewals against capital, thus inflating profit, or conversely not charging improvements to capital, thus deflating profit. Railway promoters such as George Hudson were heavily criticised for inflating the dividends of companies they managed, and eventually the railway mania led to the collapse of some companies.

Over the next 20 years, a consensus emerged on railway accounting, embodied in the Regulation of Railways Act 1868. This act specified a standard form of accounts for railways, based on the double-account system. Although recognition and measurement rules were not specified in detail, by this stage a body of best practice had developed on the larger railway companies that provided the norm (not necessarily always followed) for other companies. The 1868 act was adapted for regulating other utilities, such as gas, electricity, tramway and water companies. Banks and insurance companies were also the subject of industry-specific accounting regulation, well before such regulation applied to companies in general. Although nineteenth century Britain has been described as a *laissez faire* economy, the existence of parliamentary regulation of economically significant industries, where a clear public interest in good management existed, suggests that *laissez faire* was highly qualified in practice.

## General incorporation

Economic growth in the early decades of the nineteenth century created a demand for a simple form of incorporation, less costly than seeking a royal charter or special act of parliament. Companies organised through a deed of settlement were a feature of the 1820s. Some of them were genuine business ventures seeking more capital than could be provided by individuals and families, but others were vehicles for fraud. Their main defect was their ambiguous legal status: they were possibly illegal under the Bubble Act, but even if they were legal, they did not provide the protection of limited liability to investors. The failure of some deed of settlement companies stimulated interest in alternative structures. The Chartered Companies Act 1837 made it easier for businesses to gain a royal charter, and some long-standing businesses, such as the Royal Mail Steam Packet Company and the Peninsular and Oriental Steam Navigation Company, were incorporated under this act. A Select Committee on Joint Stock Companies, chaired by the future prime minister William Ewart Gladstone, recommended that deed of settlement companies should be regulated, and the Joint Stock Companies Act 1844 required such companies to register with the Registrar of Companies, a government official. Unincorporated partnerships of more than 25 partners were prohibited, while new companies with at least seven members could be incorporated through a simple process of registration.

The 1844 act contained accounting requirements, similar to those that were being included in contemporary special railway company acts. Companies were required to keep “proper books of account” and to balance them annually. The directors were required to present a “full and fair” balance sheet at each annual meeting of shareholders, and the shareholders were required to appoint auditors to report on whether the balance sheet met the legal requirements. The audited balance sheet had to be filed with the Registrar of Companies. However, in practice the filing requirement was poorly enforced, and the lack of detail in the 1844 act about how the balance sheet should be prepared and presented allowed directors to file statements that even contemporary critics regarded as meaningless. The appointment of auditors was also of little real significance, because auditors were required only to be shareholders, needed no technical accounting ability, and tended to be closer to the directors than to the generality of shareholders. However, subsequent debates after the passing of the 1844 act show that the philosophy underpinning the requirement for a full and fair balance sheet was to allow shareholders to assess the way in which directors had applied the capital of the company (“stewardship”), to provide some information on corporate solvency, and to ensure that dividends were not being paid out of capital.

An important omission from the 1844 act was limited liability, and the absence of this protection for shareholders was an inhibiting factor. The Limited Liability Act 1855 allowed companies to be registered with limited liability, but because this was regarded as increasing the risks of those dealing with such companies, they were required to include the word “Limited” at the end of their names. Some commentators argued that “the price of limited liability is the publication of accounts”, but the Joint Stock Companies Act 1856 actually repealed the compulsory accounting and auditing provisions of the 1844 act. The 1856 act included a model set of “articles of association”, which companies were able to adopt or modify in order to regulate their internal management. The model articles contained provisions dealing with companies’ accounting records, the preparation of an annual balance sheet and an income and expenditure account, auditing these statements, circulating them in advance of the annual general meeting to shareholders, and finally presenting them for shareholder approval at the annual general meeting. The model articles even provided a format for the balance sheet, and stated that the auditors should report on whether the balance sheet was “a full and fair balance sheet, containing the particulars required, and properly drawn up so as to exhibit a true and correct view of the state of the company’s affairs.” Although the Companies Act 1862, which consolidated all the previous legislation into one act, continued not to impose accounting, auditing and reporting requirements, the model articles were widely adopted, perhaps in a modified form. The financial statements, however, were often seen as a private matter of interest only to shareholders, with non-shareholders being refused access to the statements.

An important factor working in favour of more disclosure was the influence of the stock market. Up to 1885, as many as one in four of the companies incorporated under the Companies Act had securities quoted on a stock exchange. The exchanges imposed, as part of their listing agreements, a requirement to provide shareholders with the annual balance sheet. The London Stock Exchange, the most influential and important market, required companies whose shares were traded by its members to deposit their annual balance sheets with the exchange. Companies with a wide shareholder base often voluntarily published summaries of their annual balance sheets, or even the whole document, in the press. Hence, in practice, much corporate financial information was being disclosed on a regular and systematic basis. However, widely recognised accounting principles were only beginning to emerge by the end of the nineteenth century, and it was acceptable for directors to undertake what would now be called “earnings management” in order to ensure a smooth trend of dividends (companies were usually expected to distribute all or most of their reported profits to shareholders). Directors could, for example, build up “secret reserves” through high depreciation and other provisions in good years, which could be drawn on in poor years in order to inflate reported profits. Two factors were to encourage the emergence of widely accepted accounting practices for companies by the end of the nineteenth century: the influence of business taxation, and the emergence of the accountancy profession.

## Taxation

An income tax had been introduced in Britain in 1799, but it was repealed in 1816. The tax was reintroduced in 1842. Profits from trades and professions were taxed as income, and this meant that it was necessary to develop rules for determining taxable profits. A distinction was made between trading and non-trading receipts and payments, with the latter not affecting the computation of taxable profits. However, this left the treatment of capital expenditure needing to be addressed. The underlying philosophy of the income tax was that it was only temporary, and it had to be renewed each year. If capital expenditure in a particular year were deductible, this would be potentially inequitable if the income tax were to be abolished. On the other hand, including a charge for depreciation was considered problematic, since determining depreciation would involve estimating an asset’s economic life and selecting a depreciation method, and making estimates was considered to be open to abuse. The double-account system and its philosophy of strong separation of capital and revenue was influential, and expenditure on long-lived assets was thus treated as a capital cost, not deductible for tax purposes, while expenditure on repairs and alterations was regarded as a deductible charge against revenues.

Decisions on what expenditure could be deducted were in practice made by local Commissioners of Taxes, who were responsible for determining liabilities for tax. This inevitably led to inconsistency of practice, with some businesses being able to claim deductions for “wear and tear” as well as for repairs and alterations. Following various court cases, the Customs and Inland Revenue Act 1878 formalised the wear and tear allowance, and over the next few years a substantial and complex set of rules for determining the basis of this allowance for different classes of asset developed, partly through litigation but more significantly through publicity being given to Inland Revenue practice. Companies were taxed on their trading profits under the income tax laws, and many companies appear to have based depreciation charges on the deductible wear and tear allowances. One consequence of this was that assets such as land and buildings, which were not normally eligible for wear and tear allowances, were not depreciated. However, companies were not legally obliged to prepare their financial statements using the same accounting methods as they employed to determine their taxable profits. Hence, it would be possible to pay tax on profits very different from those reported in the financial statements. In addition, until well into the twentieth century, taxable profits were determined by reference to tax years that did not necessarily coincide with accounting periods, and the calculations involved some averaging of profits across several years. Hence, even though profits for income tax purposes were, in theory, determined according to “the ordinary rules of commercial accountancy”, these “rules” often had lower priority than specific statutory rules. Income was subject to tax only when earned, and deciding on when revenues are “realised” (and hence recognised in financial statements) was strongly influenced, but not wholly determined, by tax practice.

## The accountancy profession

Knowledge of accounting methods was often picked up through experience at work, with basic double-entry bookkeeping being taught at school. There were few professional accountants before the nineteenth century, and their business was at first largely based on dealing with the affairs of bankrupts. The emergence of a corporate sector, particularly during the railway mania, generated a demand for skilled auditors and investigators. Firms such as Deloitte & Co., Cooper Brothers & Co., Price, Waterhouse & Co. and W. B. Peat & Co. (the forerunner of KPMG) were established between 1840 and 1870, as was Harding & Pullein, the ancestor of Ernst & Young. Partners from these firms were often involved in investigating claims of false accounting in railways and other companies, and in providing auditing services. Professional accountancy bodies began to be formed in the 1850s, beginning with the Society of Accountants of Edinburgh, chartered in 1854. Further Scottish bodies were established in Glasgow in 1855 and in Aberdeen in 1867, and the three organisations merged in 1951 to form the Institute of Chartered Accountants of Scotland (ICAS). In England, five professional bodies that were set up in the 1870s combined to form the Institute of Chartered Accountants in England and Wales (ICAEW), while the Institute of Chartered Accountants in Ireland (ICAI) was established in 1888. Members of these bodies are known as “Chartered Accountants”. The conferment of a royal charter was regarded as providing prestige, and access to the profession was restricted through a demanding system of education and training.

The need to train professional accountants helped to stimulate a regard for developing accounting principles. More experienced accountants needed to pass on their beliefs as to what constituted sound accounting practice to newcomers, and this led to the writing of textbooks and the publication of dedicated periodicals. The most important of these was *The Accountant*, which was founded in 1876, and contained many articles by accountants debating issues of financial reporting and accounting measurement. Part of the rhetoric of professionalism, though, was that accountants should be able to exercise their informed judgement in advising their clients or deciding whether particular accounting practices were permissible. Hence, the professional bodies explicitly declined to provide official guidance on accounting practices. Important books on accounting principles from the late nineteenth and early twentieth centuries include Francis Pixley’s *Auditors: Their Duties and Responsibilities* (1881), Ewing Matheson’s *The Depreciation of Factories* (1884), Emile Garcke and John Manger Fells’s *Factory Accounts* (1887) and Lawrence Dicksee’s *Auditing: A Practical Manual for Auditors* (1892) and *Advanced Accounting* (1903). Dicksee was the first person in Britain to be appointed to a university chair in accounting – he taught at Birmingham University between 1902 and 1906 and subsequently at the London School of Economics. Birmingham had a strong tradition of commercial education, but at the older universities accounting was not held in high regard – Alfred Marshall, the Professor of Economics at Cambridge University, was particularly dismissive of accounting as an academic activity.

These early writers did not tend to develop explicit theories of financial accounting, but it is possible to reconstruct what has subsequently been labelled as the “historical cost convention”, the principles that underpinned the practical recommendations contained in books and journal articles. These recommendations were normative in the sense that they stated how senior accountants believed companies *should* prepare their financial statements, even though in practice they were not enforceable as hard and fast rules, and were often not followed in practice. The consensus was that:

1. Assets should be recognised in the balance sheet only if they had been acquired for value, and thus had a determinable cost. In some cases, such as when a company was set up to acquire an already-existing business, this “cost” could be arbitrary, for example, when round-sum amounts were attributed to “goodwill”.
2. Assets should not be included in the balance sheet at an amount in excess of cost (except in highly restricted circumstances), and should be written down below cost if the value of the assets had become impaired. This was regarded as “prudent” accounting.
3. Long-lived assets could be written down on a systematic basis over their expected lives, even if the net book values differed from external values such as resale price. This was regarded as appropriate for businesses operating as “going concerns”, since such businesses held their long-lived assets for use rather than for sale. Hence current market values would normally be irrelevant.
4. Provision should be made for all known liabilities and losses – another example of accounting prudence.

Overall, accountants preferred financial statements that understated the financial position of a business. Such statements were considered to limit the possibility of paying dividends until profits had been earned, and hence to protect both shareholders and creditors from rash behaviour on the part of directors. Financial scandals still occurred, however, sometimes exacerbated by misleading accounts and inadequate auditing, and the courts provided a series of judgements setting out a fairly flexible set of accounting requirements (for example, fixed assets need not be depreciated whereas losses on current assets had to be provided for), and delimiting the scope of auditor responsibilities. The overall philosophy of British corporate financial reporting at the beginning of the twentieth century is summed up by the remarks of Mr Justice Buckley, in the case of *Newton v. Birmingham Small Arms Co*.: “The purpose of the balance sheet is primarily to show that the financial position of the company is at least as good as there stated, not to show that it may not be better.”

# The twentieth century

## Conservatism and stagnation: 1900-1940

Although most businesses operated as sole traders or unincorporated partnerships at the beginning of the twentieth century, about 30,000 companies had been incorporated, and the pace of company formation accelerated following the *Salomon v. Salomon & Co.* case in 1897. This case made it clear that any business could be incorporated as a limited company, as long as the necessary legal formalities (including having at least seven shareholders, most of whom could in practice be nominees of the business owner) were complied with. The Companies Act 1900 was introduced to enhance the regulation of the growing number of companies. This act introduced a requirement for all registered companies to appoint auditors to report on their balance sheets, which had to be presented to shareholders every year. Auditors did not have to be professionally qualified, but a company’s auditor could not also be a director of the company. The act did not contain any provisions relating to the form and content of the balance sheet, or recognition and measurement rules. Financial statements were seen as matters between shareholders and directors, and protection of creditors was of lesser importance in the statutory provisions.

The Companies Act 1907 introduced a distinction between “public” companies and “private” companies, the latter being restricted to 50 members or less and being prohibited from offering their securities to the public. Companies that did not satisfy the limits imposed on private companies were classified as public, though company names did not distinguish between the two classes of company. Private companies were permitted to have a few as two shareholders, while public companies needed at least seven. From the financial reporting viewpoint, private companies were not required to file their annual balance sheets with the Registrar of Companies, though public companies were subject to the filing requirement. Hence private companies gained the benefit of limited liability for their shareholders while avoiding the obligation of providing publicly available information about their financial position. The filing requirement for public companies was, in practice, not onerous, since it was possible for public companies to file a different balance sheet from the one presented to shareholders at the annual general meeting.

The 1907 act (which was subsequently consolidated with other legislation to form the Companies Act 1908) did not give regard to a growing phenomenon – the corporate group. Groups were being created through horizontal mergers in particular industries, such as textiles, and through vertical acquisition of suppliers or distribution outlets by manufacturers. For example, Lever Brothers (later to be one of the components of the Unilever group) began as a soap manufacturer, purchased suppliers of raw materials, expanded into a range of manufactured products, and later acquired several retail chains. Company law, however, focused on the single company, and very few British companies prepared group accounts before the First World War. The availability of the private company form allowed large business combines to conceal much of their activity, since a public parent (or “holding”) company could operate through private company subsidiaries, which were not required to publish their financial statements. The parent company’s balance sheet would simply show these subsidiaries as investments, and the parent’s profits could be managed by controlling the dividends collected from the subsidiaries. Lever Brothers provides a good example of this: in 1914, its balance sheet showed total assets of about £16 million, of which about £10 million was represented by investments in subsidiaries and associated companies. The underlying assets and liabilities of the subsidiaries were concealed, and there was no way for shareholders to determine whether the subsidiaries held substantial undisclosed reserves or, on the other hand, whether they were overvalued in the parent company’s balance sheet.

War is often a catalyst for change, but in the case of financial reporting the First World War tended to reduce rather than improve the quality of corporate balance sheets. The war had most impact on internal management, with the need to control costs and avoid excess profits leading to the introduction of more sophisticated costing systems and generally enhancing internal accounting systems. However, companies tended to give less detail in their financial statements about their financial position and activities. For example, the shipping company P&O had, before the war, been generous in the detail provided in its financial statements – as well as a full balance sheet, it provided an informative profit and loss account. In 1916, however, P&O’s balance sheet included only one item on the assets side: “Steamers, Tugs and Launches; Payments on Account of New Ships; Coal, Naval and Victualling Stores, Freehold and Other Property, Workshops and Machinery, Wharves, Moorings, &c., Sundry Investments, Cash at Bankers and in Hand, and debts owing to the Company”, at an amount of £12,401,009. Moreover, this figure, and similar balance sheets for UK companies, were likely to reflect significant manipulation. P&O had written its fleet of steamships down to a nominal amount, and the “Sundry Investments” included shares in several subsidiaries, which were worth substantially more than the amounts included in the balance sheet. Because wartime profits were often much larger than those in peacetime, directors were able to hide some of these excess profits through the use of “secret reserves”, such as excessive depreciation, taxation and other provisions, while still maintaining reported profits, and hence dividends, at pre-war levels. The British government introduced the excess profits duty as a special war tax, but this was complex to determine, and directors often grossly overestimated the duty that would have to be paid.

When the war came to an end, poor corporate disclosure practices continued at most companies, although there were some exceptions (for example, Nobel Industries, later to become part of the Imperial Chemical Industries group, provided a statement of group assets and liabilities as at 31 December 1920, albeit a year or so later in its 1921 annual report). Criticism of the quality of corporate governance, including financial reporting, in the context of companies with widely dispersed ownership influenced the establishment of a Company Law Amendment Committee chaired by Wilfred Greene, KC. The Greene Committee investigated group accounts and the publication of a profit and loss account. Both of these additions to the single company balance sheet were being advocated by financial commentators, including leading accountants such as Sir Gilbert Garnsey of Price Waterhouse, who considered that investors needed to be able to assess the overall financial position of companies in which they invested, not just whether the current dividend was being paid out of profits.

The conservatism of the accountancy profession in general was evidenced by the submission of the ICAEW to the Greene Committee. The ICAEW claimed that publishing a profit and loss account and providing group accounts would “do more harm than good”, and took the view that shareholders would actually be disadvantaged through the provision of detailed financial information – if shareholders wanted more information, the ICAEW naively proposed, they could ask questions at the company’s annual general meeting. The ICAEW defended secret reserves, stating that they were “in certain cases desirable and in many cases essential”. The Greene Committee tended to side with the ICAEW, and its recommendations were limited. They were enacted in the Companies Act 1928, which was subsequently combined with previous legislation as the Companies Act 1929. This act made it clear that companies were required to file the annual audited balance sheet as submitted to and approved by the shareholders, and the act for the first time set out specific disclosure requirements, even though these were only basic (assets had to be classified into “fixed” and “floating”, various intangible assets had to be disclosed separately, and investments in and balances due to and from subsidiaries had to be shown – an acknowledgement of the significance of groups even though this fell short of a consolidated balance sheet). Shareholders were to be presented with a profit and loss account, but this did not need to be audited or filed with the Registrar of Companies, and the act did not specify any particular disclosures, so it is not surprising that the profit and loss account was often little more than a statement of how profits had been appropriated. Overall, the Companies Act 1929 can be criticised for enabling continued stagnation in corporate reporting in the UK.

However, criticism of this stagnation built up in the 1930s. The collapse of the Royal Mail Group, Britain’s largest shipping combine, revealed that the published accounts of the main company in the group, the Royal Mail Steam Packet Company, had been manipulated throughout the 1920s. Although the company had been making persistent operating losses, the directors were able to report profits, and pay dividends, by drawing on undisclosed profits of subsidiaries and on “inner reserves” created during the First World War to cover liabilities for excess profits duty and other liabilities, but which subsequently proved to be unnecessary. For example, the directors converted an operating loss of over £500,000 for 1926 into a reported profit of nearly £500,000 by taking about £250,000 from subsidiaries in the form of undisclosed dividends and a further £750,000 from inner reserves. In 1931, Lord Kylsant, the chairman of the Royal Mail Company, and the company’s auditor, were prosecuted for publishing balance sheets that were false and fraudulent.

Kylsant was able to call witnesses, including leading accountant Lord Plender of Deloittes, who testified that the Royal Mail Company’s accounting practices were common among large companies and were quite acceptable. Kylsant and the auditor were acquitted, though Kylsant was imprisoned after a conviction for issuing a false prospectus. The revelations of Plender’s evidence on current accounting practice led to wide comment and criticism in the financial press, and to calls for companies legislation to be made stricter. However, the Royal Mail case came too soon after the Companies Act 1929, and the government’s attention was dominated by the emerging Great Slump of the 1930s, so there was little development of corporate financial reporting practice during this decade.

Accounting theory had scarcely developed in Britain since the emergence of the historical cost convention. Professional accountants valued conservatism in recognition and measurement, so the creation of secret reserves was considered to be good because it understated the financial position of a company. Using such reserves to boost profits in poor years was also considered desirable because shareholders were believed to value dividend stability. Even as late as the 1930s, accountants did not normally give much thought to accounting principles. Professional institutes refused to make statements about technical accounting matters, arguing that to do so would limit the ability of their members to exercise their own judgement. Unlike the position in several other European countries, there was no organised group of academic accountants. Most teachers of accounting in universities were part-timers, whose professional knowledge and experience did not compensate for their lack of contact with other academic disciplines such as economics, and their poor knowledge of theoretical developments in accounting elsewhere in the world. The main exception to this was the London School of Economics, where the Professor of Commerce, Arnold Plant, supported the work of some young scholars, some of whom had a background in professional accountancy, in trying to understand and improve both financial and management accounting. The most notable members of this group were Ronald Edwards (later to be a professor of industrial organisation before pursuing a career in business) and Ronald Coase (who moved to the USA and subsequently gained the Nobel Prize in Economics in 1991), and on the margins of the group was William Baxter (later to be the first full-time professor of accounting in Britain).

Edwards was responsible for setting up the Accounting Research Association, to provide a forum for studying and improving accounting practice. He wrote a series of articles on “The nature and measurement of income”, published by the weekly periodical *The Accountant* in 1938. These articles critiqued the historical cost convention, with its reliance on realisation as the criterion of income recognition. Edwards thought that accounts prepared under this basis provided misleading information about what an entity’s current value was, and hence failed to allow investors to allocate their resources optimally to the most productive uses. Edwards preferred income to be measured in terms of “increased net worth”, which essentially involved measuring a firm’s value (based on the present value of expected future net cash inflows) at the start and end of the period and defining income as the increase in value. Edwards was attempting to ask fundamental questions such as what financial reporting is for, and how the needs of users could best be satisfied, but his recommendations were criticised as “dangerous nonsense” even by his own colleagues. The coming of the Second World War in 1939 meant that the group of theorists at the London School of Economics was broken up, but the fundamental issues that they raised were to influence thinking during and after the war.

## Progress and complacency: 1940-1970

During the Second World War, the ICAEW changed its policy of refusing to provide guidance on technical accounting matters. Through the Taxation and Financial Relations Committee, the ICAEW began to issue a series of Recommendations on Accounting Principles in December 1942. Initially, the recommendations related to technical aspects of accounting for special war taxes, but they quickly began to deal with broader aspects of financial reporting, such as asset valuation, reserves and provisions, and the publication of group accounts. In 1943, the British government established a new Company Law Amendment Committee with Mr Justice Cohen as the chairman. The members of this committee were carefully selected to enhance the likelihood that it would made radical recommendations, particularly relating to aspects of corporate governance such as financial reporting. Had it not been for the war, it is probable that pressures from the London Stock Exchange would have led to greater financial disclosure, in particular a requirement for group accounts, but the war put a brake on innovations in corporate reporting. However, the need for detailed corporate information to aid in wartime economic planning provided another factor encouraging improvement in financial reporting.

The accounting recommendations of the Cohen Committee were largely based on the submissions of the ICAEW, themselves reflecting that body’s recent recommendations. Indeed, the accounting requirements of the subsequent Companies Act 1947 (consolidated with previous legislation the following year as the Companies Act 1948) were often word-for-word based on the ICAEW’s recommendations. The main innovations of the 1948 act were a requirement for an audited profit and loss account in addition to the audited balance sheet, extensive disclosure requirements, which meant that companies had to provide notes to the accounts, and a demand for group accounts from parent companies. The privilege of not filing accounts with the Registrar of Companies was restricted to “exempt private companies”, which were private companies that were not subsidiaries of public companies. The act also tightened up on the qualifications required of company auditors, enhancing the position of the professional institutes. On the other hand, the act did not specify presentational formats for financial statements, which had been viewed by the Cohen Committee as too restrictive for the wide variety of UK companies.

The 1948 act was a significant advance on previous legislation, but it still had shortcomings. For example, the profit and loss account was not required to show the details of the company’s operating revenues and expenses, just the appropriation of net profits before tax. The act did not articulate accounting principles and did not normally include recognition or measurement rules, so directors still had a considerable amount of choice in preparing financial statements. Moreover, most directors interpreted the act’s requirements as a statement of the maximum rather than the minimum level of disclosure, and few companies experimented with providing additional information beyond the statutory minimum.

Beyond the detailed requirements, the 1948 act introduced the requirement that financial statements should give a “true and fair view” of the state of affairs of a company and (if appropriate) the group, and of the profit or loss for the period. The company’s auditor was required to report specifically on whether the accounts gave a true and fair view. The term “true and fair view” appears to have come from the ICAEW’s Taxation and Financial Relations Committee, and was advocated as allowing directors to provide more meaningful financial statements. The previous “true and correct” requirement was thought to encourage accounting for the form rather than the substance of transactions, while ignoring the need for directors to make estimates in determining important accounting numbers. However, it was considered that compliance with the detailed requirements of the 1948 act would normally be sufficient to give a true and fair view.

The 1950s and early 1960s were a period of complacency for accountants, who were experiencing a boom in the profession. Several thousand accountants were qualifying annually, and accountancy careers became attractive to university graduates. The ideas of Edwards, Coase and others were developed by the “LSE Triumvirate” of William Baxter, Harold Edey and David Solomons, whose students and colleagues were appointed to many of the early chairs in accounting in the UK, as well as to positions of influence within the accountancy profession. By the late 1960s, however, two important issues drew the quality of financial reporting into question. One of these was whether financial reporting using the historical cost convention was still appropriate in a world where inflation was endemic. Scholars such as Baxter wrote papers advocating the use of different valuation bases such as current cost, and restatement of accounts to reflect changes in general price levels. The other issue related to the standardisation of financial reporting. Although the Recommendations on Accounting Principles provided some element of standardisation, they were explicitly presented as statements of “best practice”, and compliance was optional. The recommendations allowed for alternative accounting treatments, and one influential international academic commentator, Professor Raymond Chambers of the University of Sydney, suggested that by combining the available options, over one million different combinations of accounting policies could be generated, each combination counting as giving a true and fair view. The lack of standardisation was brought out in various financial scandals in the late 1960s. For example, the General Electric Company (GEC) took over Associated Electrical Industries (AEI). Before the takeover, AEI issued a profit statement, which its auditors endorsed, showing an estimated profit for the year of £10 million. After the takeover, GEC reported that AEI had actually made a *loss* of £5 million, and GEC’s auditors explained that the difference was largely due to the application of different accounting policies to measure the same transactions and events. Another scandal, involving the abortive takeover of Pergamon Press, a company controlled by Robert Maxwell, revealed that auditors could have radical disagreements on when sales transactions, and the related profits, should be recognised.

Parliament had recently passed an act (the Companies Act 1967) amending the Companies Act 1948. The later act abolished the status of exempt private company, so all companies were now subject to the same accounting, disclosure and filing regimes. It also required some additional disclosures, some of which represented early realisations that company accounts were of potential value not just to shareholders but to broader stakeholders. However, standardisation of corporate financial reporting through detailed *statutory* recognition and measurement rules was still seen as inappropriate, so any solution to the problem of standardisation would have to come from within the accountancy profession.

## Reform and regulation: 1970-2005

During the 1950s and 1960s, the largest accounting firms became increasingly international, with long-standing British firms merging with leading North American firms and US firms such as Arthur Andersen opening offices in London and other British cities. The “Big Eight” accounting firms had their own procedures for attempting to ensure consistent practice from one office to another, and this helped to create a climate for accounting standards issued by an authoritative organisation. The Accountants International Study Group (AISG) was established in 1966 to bring together representatives from the USA, Canada and the UK in order to identify best accounting practice. The main promoter of the AISG was Sir Henry Benson, a senior partner of Coopers & Lybrand (and a descendant of one of the original Cooper Brothers), and an active member was Sir Ronald Leach of Peat, Marwick, Mitchell & Co. Both Benson and Leach were influential members of the ICAEW’s Council, and encouraged the ICAEW to develop its technical guidance for members.

The scandals of the late 1960s were the subject matter of an article in *The Times* written by Professor Edward Stamp of the University of Edinburgh, which caused some resentment among professional leaders. However, Leach, by now President of the ICAEW, used the catalyst of Stamp’s criticisms to make a strong case for replacing the Recommendations on Accounting Principles by Accounting Standards (although it was not clear whether he meant to provide standards specifically for auditors – Leach often talked of “auditing standards” – or, as they subsequently became, Statements of Standard Accounting Practice (SSAPs). The ICAEW issued a Statement of Intent in December 1969 (Leach’s persuasive power and the support of Benson ensured that the proposals for accounting standards were not resisted), and established the Accounting Standards Steering Committee (ASSC) with effect from January 1970. The aim of the ASSC, as set out in the Statement of Intent, was to “narrow the areas of difference and variety in accounting practice” by “publishing authoritative statements on best practice which will wherever possible be definitive.” The Statement of Intent identified a need for disclosure where amounts in the financial statements depended on valuations or estimates of the future. Members of the ICAEW were under a professional duty to apply standards, and would be subject to disciplinary proceedings if they failed to comply.

To begin with, the ASSC was well received, and the other leading professional accountancy bodies became associated with the Committee. In 1975, it was renamed the Accounting Standards Committee (ASC). The first significant accounting standard was SSAP 2 on the disclosure of accounting policies. The standard went beyond simple disclosure by setting out four fundamental accounting concepts (going concern, accruals, consistency and prudence). Essentially, the Committee followed an inductive approach, identifying these concepts by attempting to generalise from “best practice”. The concepts were by no means “axioms” of financial reporting – it was stated that, where the accruals and prudence concepts clashed, then the prudence concept would take precedence, but in developing subsequent standards, the concepts were not applied consistently. Although the ASSC began with an ambitious programme of work, in practice it moved slowly (particularly since accounting standards required the endorsement of all of the professional bodies represented on the ASSC). SSAPs were issued only after public comment, following an Exposure Draft (ED), and in some cases (such as ED 3 on mergers and acquisitions) lack of support meant that a standard would not appear. Leach acted as chairman of the ASSC/ASC until 1976, when he was succeeded by Sir William Slimmings, a leading Scottish chartered accountant. Benson had little direct involvement with the ASSC, since he had taken the lead in setting up the International Accounting Standards Committee (IASC) in 1973, ensuring that the IASC’s Secretariat was based in London.

One of the ASSC’s initial projects related to “accounting for changes in the purchasing power of money”. Although there had been some interest in the impact of inflation on financial reporting in the 1940s, when inflation rates were relatively high, this interest diminished as inflation rates fell in the 1950s to around 2% per annum. The rate gradually crept up during the 1960s, but in 1971 and 1972 the rate of general price change was over 8%, in 1973 it rose to 16%, and in 1974 it shot up to 25%. Commentators expressed concern that British companies were paying excessive dividends while the real value of companies was declining. The ASSC brought out a provisional standard based on the provision of supplementary statements using the current purchasing power (CPP) method of general price level adjustment. However, the British government, worried that the use of general price indices would legitimise indexation of pay and prices, set up a committee under Francis Sandilands (who had a background in insurance) to make recommendations on inflation accounting. The report of the Sandilands committee, published in 1975, did not support the ASSC’s preference for CPP, advocating instead a system of current cost accounting (CCA) based on the notion of “value to the business”, an eclectic valuation basis incorporating replacement cost, realisable value and present value of future cash flows.

The ASC (as it had now become) set up an Inflation Accounting Steering Group (IASG) with Douglas Morpeth (senior partner of Touche Ross) as chairman, and the IASG worked on producing an accounting standard that would put the Sandilands recommendations into effect. The ASC continued to issue standards on a range of topics, but it began to meet opposition from companies. The standard on stocks and work-in-progress (SSAP 9, which also covered accounting for long-term construction contracts) was breached by a minority of companies, objecting to the requirements to include allocated production overheads in measuring the cost of inventories or to recognise profits on incomplete construction contracts. The standard on deferred tax (SSAP 11) attracted more controversy, with a significant minority of companies’ refusing to comply. The ASC had no effective way of enforcing standards in this situation, particularly when non-compliance was supported by major accountancy firms, and so SSAP 11 was quickly withdrawn. Subsequently, as was to be the case with the standard on research and development (SSAP 13), the ASC had to compromise to obtain acceptance of some of its proposals – SSAP 13, for example, allowed considerable flexibility as to whether development expenditure was recognised as an asset or written off as incurred.

The process of developing an inflation accounting standard demonstrated clearly the weakness of the ASC’s structure and method of working. The initial document (ED 18 *Current cost accounting*, issued in November 1976) was taken to a vote of the ICAEW’s membership and barely survived this vote. As a consequence, the ASC felt obliged to modify the proposals, with the current cost system becoming increasingly complex as a result of the “Hyde guidelines” of November 1977 and ED 24 in April 1979 before the final standard SSAP 16 was issued in March 1980. However, this came rather too late, since the rate of inflation had been falling almost as soon as accountants started paying attention to the price change problem. SSAP 16 required only supplementary current cost statements, with the main statements remaining on the traditional historical cost basis, and as increasing numbers of companies stopped providing the supplementary statements, the ASC recognised the inevitable, and suspended SSAP 16 in 1985 (withdrawing it altogether in 1988).

Although many accountants thought that they could keep the regulation of financial reporting largely within the professional accountancy bodies, the British government began to be much more active in regulating accounts through the law. The European Economic Community (EEC), precursor to the European Union (EU), to which the UK acceded in 1972, had already begun a process of harmonising corporate financial reporting, and the UK began to enact the provisions of the directives on company law. In the Companies Act 1976, the previous distinction between public and private companies was modified, with the introduction of the public limited company (PLC), and the requirement to identify the type of company by using either ‘PLC’ or ‘Limited’ in the name of each company depending on whether it was a public or private company. The Companies Act 1980 introduced statutory rules on the determination of profits available for dividends, overruling a century of judge-made case law.

The major changes to the law relating to company financial statements were contained in the Companies Act 1981, which incorporated into British law the provisions of the Fourth Directive on company law. The 1981 act introduced standard formats for the balance sheet and profit and loss account, and set out accounting principles and measurement rules. However, the act also reduced the disclosure requirements for companies classed as “medium” and “small”. In some cases, as for example with accounting principles, the act’s provisions were consistent with existing accounting standards, but the relationship between accounting standards and the Companies Acts became unclear. The 1981 act had continued to require financial statements to give a true and fair view, and this requirement was also included in the Fourth Directive. The requirement was specifically stated to override compliance with the directive’s detailed provisions, where this was necessary to give a true and fair view. How far, however, could the ASC invoke the override provisions by issuing accounting standards requiring companies *in general* to adopt accounting methods that appeared to be inconsistent with the detailed requirements of the Fourth Directive? And did the true and fair override allow companies to reflect the “economic substance” of complex transactions, even if this meant that the strict “legal form” of the transactions was not followed?

As accounting rules (in the form of legal requirements and standards) proliferated, so companies, often aided by their auditors, sought loopholes that allowed transactions to be accounting for in ways that enhanced image presented by the corporate financial statements. In some cases, this led to “off-balance sheet” financing, where assets and liabilities would be kept off a company’s balance sheet through the use of complex structures, often involving special purpose entities. The ASC was regarded as having “run out of steam”, with SSAPs taking an increasingly long time to be agreed and criticism of the ASC’s complex structure growing. A committee was set up under the chairmanship of Sir Ron Dearing, which considered that the ASC’s main weaknesses were that it was not independent of the professional accountancy bodies, that it was not adequately resourced, and it could not effectively enforce its standards. Dearing proposed an independent Financial Reporting Council (FRC), which would be responsible for generating the necessary financial support for the standard-setting body. The new Accounting Standards Board (ASB) would have a full-time chairman and technical director, with seven other members drawn from preparers, users and auditors. The new structure was given statutory support in the Companies Act 1989, which also incorporated the Seventh Directive, dealing with the financial statements of groups. Companies were required to state whether they had prepared their financial statements in accordance with recognised accounting standards, and to disclose any departures from such standards. The 1989 act also provided statutory support for the Financial Reporting Review Panel (FRRP), which had the power to take companies to court if they published what the panel considered to be “defective” financial statements. The court could, if they agreed with the panel’s view, require the company to issue revised accounts, and could even make the directors personally responsible for the cost of the revised accounts.

The new ASB took over from the ASC in 1990, and adopted the existing SSAPs. The ASB began to issue its own Financial Reporting Standards (FRS). Many of the original SSAPs were replaced with FRSs, while others were amended. The ASB benefited from an effective and outspoken chairman, David Tweedie, who would later become the first chairman of the International Accounting Standards Board (IASB) when this was established in 2001. Tweedie, with leading academic Geoffrey Whittington, had written an influential paper setting out what he thought were the defects of the ASC’s approach to financial reporting and how these could be remedied. In particular, Tweedie and Whittington advocated a more conceptual approach to standard-setting, including a formal Statement of Principles setting out the general foundations for financial reporting. Several of the early FRSs put into effect the ideas sketched out by Tweedie and Whittington, including specific definitions of assets and liabilities and an emphasis on accounting for substance rather than form.

The first technical director of the ASB was Allan Cook, who had been secretary to the IASC from 1979 to 1981. Accounting standards in the UK had developed largely independently of the IASC, but the creation of the ASB, with better resources for developing standards, led to greater cooperation between the two bodies. This cooperation was enhanced when Sir Bryan Carsberg, a former professor of accounting and subsequently a government regulator, became Secretary-General of the IASC in 1995. The IASC went through its own reforms at the turn of the century, emerging as the International Accounting Standards Board (IASB). With the growth in international capital markets, the roles of national standard setters became increasingly limited, and differences between national and international standards provided opportunities for criticism. The effects of the Enron and other scandals in the USA were felt in the UK, even though there were no major domestic scandals at that time, and helped to stimulate pressure for companies listed on UK markets to adopt International Financial Reporting Standards (IFRS). The acceptance of these standards by the European Union, subject to an endorsement mechanism, led to a change in UK company law. Now, the detailed accounting requirements, and the expectation that companies would adopt the ASB’s standards, would no longer apply to companies required to, or choosing to, adopt IFRS. All listed companies and certain regulated financial companies were required to adopt IFRS for accounting periods beginning on or after 1 January 2005, and other companies were given the option of making a once and for all switch to IFRS.

The requirement to adopt IFRS has had an impact on the continuing significance of the ASB. Although it still has a role in preparing standards for those companies that have not adopted IFRS, it has tended to accept that the IASB now has the dominant position, at least as regards listed companies. The ASB therefore normally introduces new standards, or amends existing ones, so that they are consistent with IFRS. The main area where the ASB continues to emphasise a significant and independent role is financial reporting by smaller entities. As early as 1997, the ASB had issued the *Financial Reporting Standard for Smaller Entities* (FRSSE), which set out a limited range of matters in respect of which companies falling within its scope needed to comply. The FRSSE relieved many companies from the more complex and technical requirements that were increasingly being introduced into financial reporting standards in order to deal with the activities of the largest companies. The FRSSE has been updated and revised on several occasions, most recently in April 2008.

For the future, it is likely that the dominance of the IASB in relation to listed companies will continue, with the ASB increasingly retreating into its niche of focusing on smaller entities, while “rebadging” IFRS as they emerge as their own FRS. Legislation is increasingly moving into broader areas of corporate disclosure, such as requirements for business reviews aimed at providing understandable qualitative disclosures. Meanwhile, the UK has been in the forefront of developments in the corporate governance area, including the Combined Code on Corporate Governance, now issued by the Financial Reporting Council. Many of these developments have led to additional corporate disclosures beyond the financial aspects of corporate reporting. Perhaps the main question that remains is whether the British preference for professional judgement rather than detailed rules will have much influence on the thinking and practice of the IASB and other international bodies, which are increasingly determining the form and content of corporate financial reporting for UK companies.

# Further reading

Although it does not deal with more recent developments, the most accessible overall history of financial accounting and reporting in the UK is Edwards (1989). Parker and Yamey (1994) have collected several important articles on British accounting history. Godfrey and Hooper (1996) have discussed Domesday Book as an accounting record, while Jones (2008, 2009, 2010) has studied the development of accounting in the English Exchequer, and its influence on medieval state and private accounting in Western Europe. Noke (1981) describes and analyses the main forms of manorial accounting in medieval England, and Napier (1991a) illustrates how charge and discharge accounting lasted into the nineteenth century. Nobes (1982) provides an example of a London-based Italian merchant’s account book from the start of the fourteenth century, which shows elements of double-entry. Bryer (2000a, 2000b) has reviewed archival accounting evidence, in particular that relating to the East India Company, from the sixteenth to eighteenth centuries to investigate how accounting helps to document the transition from feudalism to capitalism. Dale (2004) discusses the financial background of the South Sea Bubble.

Railway accounting has been analysed by Pollins (1956), Glynn (1984) and Edwards (1986), with Bryer (1991) critiquing the standard analysis from a Marxist viewpoint and McCartney and Arnold (2003) in turn questioning Bryer’s critique. Arnold and McCartney (2004) provide a detailed study of George Hudson’s accounting manipulations. Edwards (1985) surveys the double-account system, while Parker (1990) considers the regulation of financial reporting by “public interest” companies in the nineteenth century. Jones and Aiken (1995) question the extent to which *laissez faire* philosophies explain nineteenth century financial reporting regulation. Edey and Panitpakdi (1956) summarise British law relating to corporate accounting in the nineteenth century, Edwards (1976) sets out the early relationship between tax and profit measurement, and Freedman (1993), and Porcano and Tran (1998), bring this relationship up to the modern period.

Extensive research on the creation of the British professional accountancy bodies has been published in recent years, most notably by Walker (1995, 2004). Parker (1986) discusses the emergence of the accountancy profession, and Napier and Noke (1992) discuss the relationships between the professions of accounting and law. Brief (1976) collected important articles, mainly from *The Accountant*, that set out early thinking on accounting principles, and this collection was published by the Arno Press, which also reprinted classic texts on accounting and auditing by Pixley, Matheson, Garcke and Fells, and Dicksee, mentioned in this chapter. Information on the careers and ideas of these and other contributors to early British accounting thought is provided by Kitchen and Parker (1980), while Napier (1996) discusses accounting as a university discipline. Napier (1990) also provides a case study of how the accounting methods of a single company (The Peninsular and Oriental Steam Navigation Company – P&O) developed through the nineteenth century.

Two studies of group accounts in the early twentieth century provide information about views on this important topic. Kitchen (1979) reviews Sir Gilbert Garnsey’s thinking on group accounts, while Edwards and Webb (1984) discuss the variety of early group accounts. Edwards (1979) considers the role of the accounting profession in supporting, or opposing, reform. The Royal Mail case has attracted a substantial literature, and two useful sources are the review by Arnold (1991) of the accounting issues and the contemporary study by one of the defence lawyers in the case, Sir Patrick Hastings (1977). Napier (1991b) provides a case study of the P&O group’s use of secret reserves in the period 1914-1931. The articles by Edwards in *The Accountant* have been reprinted by Baxter and Davidson (1977). Coase (1990) provides a recollection of the accounting group at the London School of Economics in the 1930s, and Napier (1996) puts the group into a broader context.

The Taxation and Financial Relations Committee, and the Recommendations on Accounting Principles, are discussed at length by Zeff (2009), who has reproduced all the recommendations. Noguchi and Edwards (2004) discuss the role played by the committee in developing the ICAEW’s submissions to the Cohen Committee. Bircher (1998a) describes the formation of the Cohen Committee, and (1988b) also explores the adoption of group accounting in Britain. Maltby (2000) provides a different perspective on the Cohen Committee’s conclusions and their enactment in the Companies Act 1947. Arnold and Collier (2007) explore the use of secret reserves during and after the Second World War, with particular reference to the impact of the Companies Act 1948. Whittington (1994) examines the intellectual contribution of the “LSE Triumvirate”. Rutherford (1996) examines the GEC-AEI case, suggesting that the differences between the profit numbers were due only in part to different choices of accounting policies.

The history of the Accounting Standards Committee has been set out at length by Rutherford (2007). The background to the creation of the ASC is described by Robson (1991), while several of the chapters in the collection edited by Leach and Stamp (1981) discuss the early years of the ASC, and the inflation accounting debate. The role of Stamp in stimulating the creation of a UK standard-setting body is examined by Mumford (1994). A personal view of the early years of the ASSC, and international initiatives such as the AISG and IASC, is given by Benson (1989). Tweedie and Whittington (1984) provide an authoritative history of inflation accounting, and these authors (1990) also set out their views on the weaknesses in UK accounting at the end of the 1980s (which became the governing agenda for the Accounting Standards Board). The more recent history of financial reporting regulation in the UK is set out in detail in standard textbooks, such as Elliott & Elliott (2009, especially chapter 5).

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