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**Accounting at the London School of Economics:
Opportunity Lost?**

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Accounting at the London School of Economics: Opportunity Lost?

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Abstract

Given the aims of the founders of the London School of Economics, it is not surprising that accounting should have been taught at the School from soon after its establishment. An early focus on teaching practical accounting, with professional practitioners as teachers, was gradually supplanted by approaches informed by the economics of decision-making in conditions of scarce resources. By the 1930s, the Department of Business Administration provided an intellectual basis for thinking about financial reporting and costing that challenged taken-for-granted practices. After World War II, the “LSE Triumvirate” of William Baxter, Harold Edey and David Solomons took forward ideas of opportunity cost and value to the owner as core theoretical concepts, while developing undergraduate and later postgraduate programmes that provided rigorous education for future accountants, administrators, business people and academics. However, by the late 1960s, the Department of Accounting missed the opportunity of responding to changes in research focus in North America, which were influenced by developments in financial economics. The outcome was an erosion of research leadership, with other UK universities becoming the main centres of quantitative and critical accounting research.

Key words

Accounting ideas, value to the owner, opportunity cost, economics of accounting, accounting education.

Accounting at the London School of Economics: Opportunity Lost?

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INTRODUCTION

The London School of Economics and Political Science (LSE) was one of the earliest university-level institutions in Britain to offer teaching in accounting, with undergraduate courses being provided as early as 1902. In the years after the Second World War, teaching of accounting was dominated by the “LSE Triumvirate” (Whittington, 1994) of William Baxter, Harold Edey and David Solomons. These scholars worked within a tradition of applying economic reasoning to the problems addressed by accounting, such as identifying the most effective methods of valuation and income measurement in financial reporting and determining appropriate costs for business decision making. Although, as Robson & Young (2009, p.343) have observed, “This new programme for studying and improving accounting practices on the basis of economic concepts was substantially forged in the United States”, academics at LSE were to contribute to developing an understanding of accounting as “the special means through which the theories of economic value could be put into accounting practices to guide decisions and action in the firm and the economy” (Robson & Young, 2009, p.344).

The influence of LSE on accounting thought, education and practice in the United Kingdom has been widely discussed (see, for example, Buchanan, 1973; Napier, 1996; Parker, 1997; Wallace, 1997; Whittington, 1994; Zeff, 1997). However, the esteem in which LSE is held raises a central question. Given that the “LSE tradition” involved the application of economic theory to understand (and, it would be hoped, improve) accounting practice, why did LSE not provide an effective resistance to the “different linkages between accounting and economics” (Robson & Young, 2009, p.344) that were forming by the end of the 1960s? Why did LSE not become either a focus for quantitative, capital market-based research in the field of financial reporting, or an institution in which accounting practice itself was treated as an object of economic analysis? Did LSE pass up an opportunity, in the late 1960s, to assert that accounting and economics were linked in ways that would accommodate both a continuing tradition of *a priori* theorising about accounting and an empirical research programme that helped to test and refine traditional accounting theory rather than denigrating it altogether? And, if so, has the cost of missing this opportunity been the continuing hegemony of North America over quantitative research in accounting?

THE EARLY YEARS

The LSE was founded in 1895, and its first prospectus stated that:
The special aim of the School will be, from the first, the study and investigation of the concrete facts of industrial life and the actual working of economic and political

relations as they exist or have existed, in the United Kingdom and in foreign countries. (Quoted in Dahrendorf, 1995, p. 20).

One of the earliest subject areas was described as “commerce”, which covered commercial geography, some applied economic history, commercial law, and railway economics. Accounting was not specifically mentioned, though it was not long before the School introduced courses in the subject.

In 1900, LSE had become a college of the University of London, and the University created a Faculty of Economics and Political Science, which was stated to include Commerce and Industry. A year later, the University established the Bachelor of Science in Economics – B.Sc. (Econ.) – degree, based at LSE (Dahrendorf, 1995, p. 57). Teaching in accounting was offered from 1902, the first teacher being Lawrence Dicksee, who had been appointed as a part-time Professor of Accounting at the University of Birmingham that year. Dicksee was a prolific writer on accounting issues (for example, Dicksee, 1893, 1903), and carried on an accountancy practice, as well as coaching students taking professional accountancy examinations (Kitchen & Parker, 1994a, p. 219). A wide range of students took courses at LSE at this time, including railway officials and those preparing for professional examinations as well as students taking the B.Sc. (Econ.) degree.

In 1906, Dicksee resigned from the Birmingham chair, pleading pressure of work in relation to the LSE post (the demands on Dicksee’s time at LSE had been increased with the introduction of the “Army Class”, in which serving officers were taught about business methods – Kitchen & Parker, 1994a, p. 219). Dicksee introduced a course in Business Organisation from 1909. Although he did not hold a University of London chair, Dicksee was always given the title of “Professor” in annual issues of the *LSE Calendar*, and he eventually received a University of London appointment as Reader in Accounting in 1912. He became Professor of Accounting and Business Organisation in 1914. Both the readership and chair were part-time, and as accounting and business expanded LSE employed some other part-time teachers to allow additional courses to be offered.

A major innovation for LSE in the period immediately after the end of the First World War was the Bachelor of Commerce – B.Com. – degree. This was a response to plans on the part of the London Chamber of Commerce to expand commercial education. Sidney Webb, the founder of LSE, wrote in some panic to the then Director, Pember Reeves, saying: “If we do not say we are going to provide it, it will be difficult to prevent some aspiring Polytechnic or Institute from proposing to do it” (letter 11 March 1917, quoted in Dahrendorf, 1995, p. 130). A proposal for a Higher Commercial Certificate was in fact already under development, but was a source of tension between those who saw LSE’s main role as providing business education and those who supported a more research-oriented focus. By 1918, the certificate scheme had been adapted into a full degree, the B.Com. The *LSE Calendar 1919-20* (p. 105) sets out the regulations for the Intermediate Examination for the B.Com., which includes the subject “Accounting, as applied to Traders and Trading Companies”. This subject was compulsory for all students except those planning to take Banking and Finance, who were required to take a course in World History instead.

The B.Com. was provided with extensive financial support from business, particularly the financier Sir Ernest Cassel. Dicksee became the Cassel Professor of Accounting

and Business Methods from 1919 (Kitchen & Parker, 1994a, p. 220). To support him in his teaching, LSE appointed Frederic de Paula to a part-time lectureship. De Paula, a practising accountant, had written a leading textbook *The Principles of Auditing* (1914). He had spent the First World War partly in the Ministry of Munitions and partly as an Assistant Director-General of Transportation for the British Army (Kitchen & Parker, 1994b, p. 228). This gave him considerable experience of the management of large organisations. As students progressed through the degree, more advanced courses were available, which were largely based on those offered to B.Sc. (Econ.) students: Accounts of Traders and Companies (Part I and Part II), Business Organisation, and shorter courses on costing. Various part-time teachers came and went during the 1920s, while by 1926 the formal taught courses were supplemented by series of public lectures given by visitors, covering the topics of Office Machinery and Accounting in Public Offices (*LSE Calendar 1926-27*, pp. 71-72). By 1928, over one quarter of LSE's regular students were working for the B.Com. degree (*LSE Calendar 1928-29*, p. 11).

Dicksee retired from his chair in 1926, and was succeeded by de Paula (who had been promoted to Reader in 1924 – Kitchen & Parker, 1994b, p. 229). Shortly after his appointment to the Cassel chair, de Paula gave a public lecture “The place of accountancy in commerce”. In this lecture, de Paula called for a much more significant role for accountants in business:

The accounts department . . . should rank equally with the principal executive departments. The chief accountant should not be merely the head book-keeper but he should be the chief financial officer of the concern, being responsible to the general manager for the whole of the finances of the business and its financial control. (Quoted in Kitchen & Parker, 1994b, pp. 232-233).

De Paula also called for the professional accountancy bodies to show a greater interest in university accounting education. In a letter published in *The Accountant* on 1 January 1927, de Paula drew an analogy with the legal profession, noting how law teaching in universities was more integrated with the needs of that profession. He condemned the Institute of Chartered Accountants in England and Wales (ICAEW) and the Society of Incorporated Accountants and Auditors (SIAA), stating that these bodies “have not directly concerned themselves with the academic study of accountancy or research work, and apart from the setting of examinations and financial support given to Students' societies, they have not concerned themselves directly with the educational methods in force within the profession itself” (quoted in Kitchen & Parker, 1994b, p. 234).

However, de Paula was not to continue long in the Cassel chair. In 1930, he joined the Dunlop Rubber Company as Chief Accountant. Before he left LSE, he wrote to the then Director, Sir William Beveridge, setting out his observations on the School's degree programmes. In his opinion, accounting should not “be taught as a separate technique, but . . . it should form part of the study of Business Administration so that the student may appreciate the place of Accounting in the organization of a business, its functions and uses to Management. . . . In this country at present, very little has been done to study Business Administration upon scientific lines, and I am strongly of opinion that it is most desirable that this should be done. . . . I had hoped that if the Scheme for the formation of a separate Department in Business Administration came into being, we might make a commencement in the study of this subject on scientific

lines based upon practical research work.” (Letter dated 2 December 1929, in LSE Archives, File 196G). In this letter, de Paula argued that the accounting courses should not attempt to follow the syllabus of the ICAEW, but should teach “the place of Accounting in the general organization of a business and its uses to Management.” By 1930, accounting was well established as a teaching discipline at the School. Dicksee and later de Paula managed to combine their teaching with professional practice, helped by a number of short-term part-timers. Teaching of accounting was oriented towards practice. Although Dicksee and de Paula engaged in debates relating to accounting and auditing issues, they did not inculcate much of a conceptual approach in their students. That was to be the contribution of the next period, under the leadership of Arnold Plant.

THE DEPARTMENT OF BUSINESS ADMINISTRATION

Plant had been an undergraduate at LSE in the early 1920s. Soon after completing his degrees – he took both the B.Com. and the B.Sc. (Econ.) – he was appointed as Professor of Commerce at the University of Cape Town (Coase, 1987, p. 891), an institution that was to have further connections with LSE. In 1930, he returned to LSE as Cassel Professor of Commerce, in which capacity he took responsibility for the newly created Department of Business Administration, Research and Training. This had been created “at the request and with the co-operation and financial support of a number of firms and individuals interested in developing the study of business administration and the training of men for responsible posts in business” (*LSE Calendar 1931-32*, p. 234). The funds raised were quite modest, allowing a budget of about £5,000 per year for a five-year period. As its full name implied, the Department of Business Administration had a research as well as a teaching role. The teaching was consciously modelled on the case approach of the Harvard Business School (*LSE Calendar 1933-34*, p. 252). Only a small number of students followed the programme of study each year, making a seminar-based approach feasible.

Plant’s colleagues at LSE in the early 1930s included Lionel Robbins (who had been appointed Professor of Economics in 1929 at the age of 31 – Corry, 1987, p. 207) and Friedrich von Hayek (who joined the LSE staff in 1931 – Garrison & Kirzner, 1987, p. 609). Robbins was soon to publish his seminal work *An Essay on the Nature and Significance of Economic Science* (Robbins, 1932). In this book, he argued that the subject matter of economics was the problem of economic scarcity – resources are limited but wants are unlimited. Hence economics was the study of the relationship between human “ends” and “means that have alternative uses”. At the same time, Hayek was considering how markets and the price mechanism could act as an efficient method of co-ordinating supply and demand. The notion of cost that emerged from the work of Robbins, Hayek, and others around this time has been summed up by Buchanan:

Cost is the obstacle or barrier to choice, that which must be got over before choice is made. Cost is the underside of the coin, so to speak, cost is the displaced alternative, the rejected opportunity. Cost is that which the decision-maker sacrifices or gives up when he selects one alternative rather than another. Cost consists therefore in his own evaluation of the enjoyment or utility that he anticipates having to forgo as a result of choice itself. (Buchanan, 1973, p. 14)

Undergraduate teaching for the B.Com. and B.Sc. (Econ.) continued to be important at this time. After de Paula's resignation, the part-time accounting chair was not continued (the endowment being used for Plant's chair in commerce). Most of the accounting teaching was undertaken by Stanley Rowland, a chartered accountant who had been a colleague of Dicksee's in his professional practice. Rowland had taken over Dicksee's Railway Accounting class in 1924, and from 1930 he took on de Paula's accounting teaching as well. Rowland had taken a law degree in 1930, and his teaching style was traditional: he "did a very sound job in straightforward book-keeping and the legal aspects of accounting" (Baxter, 2005, p. 24). After a brief interlude as a Public Auditor, Rowland served as a part-time lecturer in accounting from 1936 until his death in 1946. Most of the accounting teaching not covered by Rowland in the 1930s was undertaken by Brian Magee, who was an LSE graduate and a chartered accountant. Rowland and Magee collaborated on a textbook that was to become widely used on university courses for several decades (Rowland & Magee, 1934).

During the 1933-34 academic year, one of those attending courses at LSE was a young William Baxter. Baxter had grown up in Edinburgh, qualified as a chartered accountant with the Society of Accountants in Edinburgh, and also graduated from the University of Edinburgh. He had spent the previous two years studying in the USA on a Harkness Fellowship, first at the Wharton School of Business and then at the Harvard Business School (Bromwich *et al.*, 2006, p. 221). On his return to Britain, Baxter tried to find a job as an accountant, but was told that his two-year study gap would make this very difficult (Baxter, 2005, p. 21). However, his mentor at the University of Edinburgh, Professor Walter Annan, for whom Baxter had done some teaching on that university's B.Com. course, had managed to create a part-time lectureship in Edinburgh starting in the autumn of 1934, and invited Baxter to fill the post. The period at LSE was particularly important for Baxter, as he was able to think about the relationship between accounting and economics. He had planned to study this in the USA (Baxter, 2005, p. 18), but instead had concentrated on more historical topics. At LSE, Plant inspired Baxter. He attended Plant's final-year undergraduate seminar and "was astonished that these young men were so well grounded in Economics. Each week a student read a paper, and he would talk about the subject, and he'd go to the blackboard and draw diagrams, as if he were a Professor of Economics" (Baxter, 2005, p. 22).

Baxter was to return regularly to LSE over the next few years, where he got to know the young colleagues that Plant was gathering around him. These included Ronald Edwards (a certified accountant who had taken the B.Com. degree through evening classes and correspondence – Ackrill, 2004), and Ronald Coase and Ronald Fowler – as Baxter later commented, "the name Ronald seemed to guarantee excellence" (Baxter, 1991, p. 139). The LSE group wanted to build connections with industry, commerce and accountancy practice, and in 1936 Edwards was instrumental in setting up the Accounting Research Association (ARA). A sympathetic publishing outlet was provided by *The Accountant*, published weekly by Gee & Co. *The Accountant* published two important series of articles, one by Edwards on the nature and measurement of income (Edwards, 1938) and one by Coase on business organisation and the accountant (Coase, 1938). Both Edwards and Coase emphasised the role of accounting in decision-making, Edwards concluding that "published accounts should have as their object the provision of information for a judgment of net worth. The

clearer and more relevant this information, the easier it is for the shareholder to calculate his income" (Edwards, 1938/1977, p. 138), while Coase described the cost approach he was advocating as "one which aims at aiding businessmen in making decisions" (Coase, 1938/1973, p. 128).

As Zeff (1997, p. 8) has pointed out, Edwards "drew extensively on the work of economists and leading academic theorists, and seemed to be especially influenced by the major treatises of Professors John B. Canning (1929) [*The Economics of Accountancy*] and James C. Bonbright (1937) [*The Valuation of Property*]". The writings of Coase and Edwards did not have much immediate impact on practical accountants (and stirred up controversy at LSE as Stanley Rowland wrote a scathing but perhaps ill-considered criticism of Edwards' articles for *The Accountant* – Napier, 1996, p. 466). The accountancy profession (outside Scotland at any rate) had a negative attitude to accounting in universities, with the ICAEW rebuffing an approach from LSE in 1938 for accounting graduates to be given some concessions allowing them to qualify as chartered accountants in a shorter period. The LSE's Department of Business Administration was under-resourced, but even if it had been in receipt of more generous external funding, it is open to debate whether it could ever have developed into a fully-fledged business school on the Harvard model, given the strong views on the part of a significant proportion of LSE's faculty that "applied" work, engaging directly with society and economy, was less desirable than "theoretical" work (Dahrendorf, 1995, p. 417).

The coming of war led to many LSE staff members moving into government service. Plant, for example, was involved in allocation of materials (Tribe, 2004), while Edwards joined the Ministry of Aircraft Production (Ackrill, 2004). Meanwhile, Baxter had been appointed as Professor of Accounting at the University of Cape Town, following Plant's recommendation (Baxter, 2005, p. 25). While in Cape Town, Baxter developed his thoughts about the inadequacies of the traditional historical cost approach to accounting, partly through debate with another Plant protégé at the University of Cape Town, George Thirlby. Bonbright's *The Valuation of Property* was another influence, and the Edwards and Coase articles were also important (Baxter, 2005, p. 27). Baxter was "resigned to staying [in Cape Town] forever when Plant wrote out and said that Rowland had died and I'd better come back and take over his job" (Baxter, 2005, p. 27). The period of the 1930s at LSE had created the intellectual basis for the application of economic thinking to issues of financial reporting and cost determination. Baxter and his colleagues were able to build on this during a period in which accounting expanded as an academic discipline in the UK.

THE LSE TRIUMVIRATE

The first accounting appointment at LSE after the end of the War was David Solomons. He had studied at LSE and then trained as a chartered accountant. He developed an interest in teaching while a prisoner of war, and soon after his return from captivity he became a lecturer at LSE. The death of Rowland in 1946 meant that Solomons was the only accounting teacher until Baxter took up appointment as the first full-time Professor of Accounting at LSE in May 1947. Harold Edey completed the Triumvirate when he was appointed in 1949.

In his inaugural lecture (Baxter, 1948) Baxter attempted to justify the place of accounting in modern universities:

It is fitting that a new professor should be made to defend his subject, and doubly so when his subject is new too. We should always look cautiously at thin ends of wedges. Further, the custom gives a slightly sporting flavour to inaugural lectures: there is always the chance that the raw professor may fail to make out a case for his subject, and so may feel forced to end his address by handing in his resignation.

Baxter noted that “academic history does not tell us of many cases in which this has happened”.

During the War, attitudes to university accounting education within the accountancy profession had been softening, and from 1946 a “Universities scheme” was available under which students passing certain courses on an economics or commerce degree were exempted from the Intermediate professional examinations (Zeff, 1997, p. 10). LSE created a new option within the B.Com. degree to accommodate this, and students following this pathway were required to take two courses in accounting (including costing and auditing), and one each in business administration, commercial and tax law, and “British Central and Local Government” (*LSE Calendar 1946-47*, p. 96). In 1949, the B.Com. was merged into the B.Sc. (Econ.) degree, the structure of the new degree involving a first part over the first two years and a second part covering the final year (*LSE Calendar*, 1950-51, p. 35). At this time, specific accounting courses represented only about a quarter of the curriculum for students specialising in accounting at undergraduate level, with study of economics, law, statistics and a foreign language representing much of the remainder.

Teaching needs took priority over writing in the early post-war years, and Baxter (2005, p. 28) has suggested that writing was inhibited because: “I think we were a little overawed and tongue-tied, and didn’t quite know how to begin.” With little scholarly literature to support the accounting teaching, Baxter put together the collection *Studies in Accounting* (Baxter, 1950). In his introduction, Baxter justified his choice of items by expressing a preference for “well-written material” that would “stimulate class discussions”, noting that “the occasional reading of subversive doctrines is good for the liver” (Baxter, 1950, pp. iv-v). The varied contents included several studies on the historical development of accounting, some articles and addresses by professional accountants and businessmen (all the authors were male) on the preparation and interpretation of company accounts, and more conceptual pieces on accounting theory. These included the original version of the articles by Edwards (1938) on the nature and measurement of income, as well as contributions from David Solomons and others on the measurement of fixed assets and inventories in a time of price change. Baxter had set the scene for these articles in his introduction, where he pointed out the inadequacies of historical cost accounting in general conditions, not just when price levels were changing: “a balance sheet is unlikely to show ‘values’, in the sense of, e.g., a current market value or a subjective value to the owner” (Baxter, 1950, p. vii). He also rejected the suggestion that applying a general price change index to historical costs would solve the problem, concluding: “The good accountant of the future will be an expert in valuation. . . . He will of course need a much fuller training in theory, particularly economic theory, than most of us have enjoyed in the past” (Baxter, 1950, p. viii).

Edwards had returned to LSE after his war service in 1946, and he contributed some reflections on his earlier articles on income to *Studies in Accounting*:

We need a lot more research on investment behaviour and investment theory. What are the mental steps by which investors actually reach their decisions? How far do they attempt to compare the position at one date with the position at another date by reducing to a single figure the data relating to each? How do they make their comparison between alternative investments? How important are irrational elements in investment decisions? What do investors think that net profit means? . . . [A]s we accumulate knowledge about the way investors reach decisions – and this is very much a job for the research worker in accounting – we shall learn how to develop methods and forms of reporting along the lines most likely to help them. (In Baxter, 1950, p. 320).

This could almost be a prospectus for a research programme in behavioural finance, while Edwards (1938) and Coase (1938) between them had anticipated the “decision-usefulness” theory of accounting that some later scholars have claimed was a product of the period after 1950 (“Accounting literature in 1951 omitted the objective of providing information useful in making decisions” – Staubus, 2000, p. 3).

Baxter’s collection was to act as a model for *Studies in Costing*, edited by Solomons (1952). The book was aimed principally at “students of accounting and business administration”, though Solomons pointed out that “a number of articles . . . should be of interest to students of economics” (Solomons, 1952, p. v). Solomons contributed to the book a specially written chapter “The Historical Development of Costing”, based almost entirely on costing manuals rather than primary archives. The interest in history was shared by Baxter and Edey, as well as several of their subsequent students and colleagues, most notably Basil Yamey, who had been a student of Baxter’s in Cape Town and later came to LSE as an economics lecturer. Yamey was to collaborate with the US accounting scholar A. C. Littleton on the collection *Studies in the History of Accounting* (1956), which followed a similar format to *Studies in Accounting* and *Studies in Costing*, although several of the chapters were specially commissioned.

Although LSE had one of the largest degree programmes in accounting in Britain by the early 1950s, many other LSE students were beginning to see accountancy as a desirable career, and these students often took at least one accounting course as an option. By the mid-1950s, between 15% and 20% of students graduating from the B.Sc. (Econ.) were entering the profession, mainly as articled clerks pursuing training with the ICAEW and other bodies (*LSE Calendar 1954-55*, p. 37; *LSE Calendar 1955-56*, p. 37). Accounting was also being taught at a growing number of UK universities. Representatives of those teaching accounting in British universities, mainly though not entirely part-timers, and predominantly located at the “civic” universities such as Birmingham, Bristol, Liverpool, Manchester and Sheffield, met in December 1947 to establish the Association of University Teachers in Accounting (AUTA, later the British Accounting Association). The first Chairman of AUTA was Professor Donald Cousins of Birmingham (who had been appointed to a full-time chair there just after Baxter was appointed at LSE), and Solomons became the Secretary. Baxter was one of three committee members (Zeff, 1997, p. 12). At an early meeting of the committee, tensions arose between Cousins, who emphasised the teaching role of universities, and Baxter and Solomons, who argued that “the first

duty of members of the Association was to produce results themselves rather than to discuss the organisation of research work by other people" (quoted in Zeff, 1997, p. 14). Although the Accounting Research Association was effectively defunct, the SIAA was promising to support research, and this was to be achieved in part through the setting up of the journal *Accounting Research*, under the editorship of Frank Sewell Bray. Bray, a professional accountant who had been a research fellow working at Cambridge with Richard Stone on National Income Accounting (Napier, 1996, p. 468), was ultimately to hold the rather unusual "Stamp-Martin Chair" in Accounting set up by the SIAA.

During the 1950s, accounting at LSE slowly established itself as an academic discipline. Institutionally, the accounting teachers were still formally part of the Applied Economics group (Baxter, 1994, p. 5). Although David Solomons left LSE in 1955 to become Professor of Accounting at Bristol, new teachers were recruited and the group grew slowly. Even as late as 1973, when Baxter retired, however, there were only about six full-time staff, supported by some part-timers (Baxter, 1994, p. 10). There was considerable staff turnover during this period, as LSE became a source of teachers for the expanding accounting courses of other British universities: When the general increase of the teaching of accounting took place, here was a supply of recruits for all the chairs in Britain, and sure enough, men like Solomons and [Bryan] Carsberg, and John Flower, and later [Geoffrey] Whittington went out and they peopled the chairs from Dundee down to Southampton with LSE graduates. This I suspect caused a certain amount of resentment, and there were mutters about the "LSE Mafia". (Baxter, 2005, p. 37)

In terms of research output, the 1950s were at best a period of gestation than one of major innovation. The LSE Triumvirate, and other LSE teachers, published the occasional thoughtful article, covering diverse topics and appearing in a wide range of journals (this was the consequence of the relative lack of subject-specific journals, with *Accounting Research* and *The Accounting Review* about the only English-language journals with a pretension to scholarship). Baxter developed very strong links with accounting researchers and economists with interests in accounting in a number of countries, and was a keen traveller himself. In particular, he visited Columbia University in 1958 at the invitation of Bonbright, and also met Henry Sweeney, the author of *Stabilized Accounting* (1936).

Academic visitors to LSE in the late 1950s included Sidney Davidson from the University of Chicago and Philip W. Bell, later co-author of *The Theory and Measurement of Business Income* (Edwards & Bell, 1961). Davidson was to become an important contact for Baxter in the USA. He co-edited the second edition of *Studies in Accounting*, now renamed *Studies in Accounting Theory* (Baxter & Davidson, 1962). This collection omitted most of the earlier book's contributions from practising accountants and businessmen, and replaced them with more scholarly pieces, often written by economists (for example, "Economics and Accounting: The Uncongenial Twins", by Kenneth Boulding, who had been a colleague of Baxter's at Edinburgh University – Baxter, 2005, p. 23). Bell, who was visiting LSE at the invitation of the Monetary Economics group, had a mutually beneficial intellectual relationship with Baxter. Whittington (1994, p. 258) has noted how Baxter's ideas on accounting in conditions of changing price levels had matured between the mid-1950s and the mid-1960s, as he moved from supporting the use of general price level

adjustments based on historical costs (Baxter, 1957), through a consideration of the potential relevance of replacement costs (Baxter, 1959), to adoption of a real-terms specific price change system (Baxter, 1964). This was similar to the system that had been presented by Edwards & Bell (1961), which was partly influenced by Baxter's ideas. These three articles were all published in UK professional accountancy magazines.

At LSE, the accounting group gained a clearer corporate identity in 1962 with the creation of a separate Department of Accounting. Baxter and Edey still regarded themselves as intellectually members of the group of economics teachers – it is significant that Edey mentions, in a personal memoir published after his death (Bailey, 2009, p. 69), that he had been appointed Professor of Accounting at LSE in 1962, but he does not discuss the establishment of the Department of Accounting, for which he was almost certainly its principal advocate. At this time, the issue of whether a business school should be developed in London was on the agenda, and ultimately the decision was taken to set up a separate institution rather than to locate the business school at LSE or Imperial College. Dahrendorf (1995, p. 422) saw the issue of a business school at LSE as a “temptation”, and celebrated what he saw as “LSE [drawing] a line: it embraced many aspects of business studies but did not want a business school.” One can only speculate as to what might have happened if LSE had gone further in the 1960s and established a business school – paradoxically, it could have inhibited the work of the Department of Accounting if its members had been faced with competition from the wide range of other business-related fields that were beginning to emerge as academic disciplines. On the other hand, finance in its modern academic form could have emerged earlier in the UK than it did. MacKenzie (2006, p. 244) has recently followed Whitley (1986) in suggesting that:

The slow development in the UK of business schools comparable to those in the United States, and the fact that in the UK finance was often taught in departments of accounting and finance that were dominated by accountants, created an institutional context that was much less supportive of theoretical, mathematical approaches to the subject.

Although Baxter had found the ICAEW an unfriendly place, during the 1960s Edey was active in building bridges. Edey had been promoted to Reader in 1955 and Professor in 1962. Whittington (1994, p. 263) has commented on his “orderliness, care over detail and concern with practicality”, which he was able to demonstrate in a number of roles. He was the first Pro-Director of LSE, and served on important committees of the ICAEW from 1964. In 1969, he was co-opted onto the Institute’s Council, beginning the tradition of the “academic member” that has continued to this day. He was a founder member of the Accounting Standards Steering Committee – like David Solomons (though unlike Baxter), Edey was convinced of the value of standardisation in financial reporting. Baxter and Edey were both interested in accounting in conditions of changing prices, and this was reflected in documents such as their evidence to the Jenkins Committee on Company Law Reform in 1960. Many students and colleagues at LSE shared this attention to price change accounting at a time in the UK when general inflation was becoming a serious concern.

The creation of the Department of Accounting was soon followed by the establishment of a new Master’s degree in accounting by the University of London, which was taught at LSE. During the 1960s, graduates of the MSc such as Susan Dev

and Bryan Carsberg were beginning their teaching careers at LSE. Parker (1997, p. 48) has provided a list of 21 full-time professors in the UK in 1971 – nine are LSE graduates. Several of these were becoming professors in their late 20s or early 30s. A common pattern for these professors was to have one or two good articles and the recommendation of Baxter. The rapid staff turnover at LSE that this pattern of appointments gave rise to, necessitated by the growth in accounting as a university discipline in the expanding UK university sector of the 1960s and 1970s, had the unfortunate effect of limiting UK accounting research output, as the new professors needed to deal with the problems of developing or in some cases creating new departments. Although Baxter had been crucial to the establishment in 1963 of the *Journal of Accounting Research* (a partnership between LSE and the University of Chicago), the comparative lack of UK submissions to this journal was a factor in LSE's decision to relinquish its interest in the journal in 1974 following Baxter's retirement from the School (for a discussion of *JAR*, see Dyckman & Zeff, 1984).

The early years of *JAR* provide evidence of how the more traditional approach to accounting research and publication practices of Baxter and Edey was being overtaken by different understandings of academic achievement. The first issue of *JAR*, in 1963, could have provided Baxter with an opportunity to set out his position on the roles of accounting theory and research, and the relationship between theory and practice. Instead, the first paper was a discussion of accounting postulates written by the Australian accounting academic R. J. Chambers (1963). Chambers is a clear contrast to both Baxter and Edey in terms of publication, with his collected papers extending to six volumes (Dean *et al.*, 2006), not to mention several books, most importantly *Accounting, Evaluation and Economic Behavior* (Chambers, 1966). Davidson published in the second issue of *JAR* (Davidson, 1963), and several of Baxter's junior colleagues (Peter Bird, Bryan Carsberg, John Flower, Bob Parker) had papers in later volumes, but Baxter made his first appearance only in 1967, in the form of a critical, even hostile, review of Chambers (1966), the condescending tone of which can be identified from this extract:

A few elderly and hide-bound readers (like me) may also be put off by the unfamiliar words. Sometimes these add to understanding, and one is grateful for them; at others, they remind one of M. Jourdain's discovery that he had for more than forty years been speaking prose without knowing it. The book-keeper of a firm, it turns out, is engaged in the temporal and subjectival ordering of records isomorphic and isochronic with the past transactions of a homeostatic organism. Good for him. But it seems sad that the brave new thoughts cannot be set out in plain words, (Baxter, 1967, p. 209)

Edey, whose name appears as a member of *JAR*'s Editorial Board between 1963 and 1967, did not publish in the journal. Edey seems to have found the quantitative and econometric turn taken by *JAR* confusing – his copy of the issue of the journal containing the famous Ball & Brown (1968) paper includes some handwritten notes attempting to make sense of the paper's arguments and conclusions (the journal and the notes were given to me by Edey in 1997). Significantly, in the long list of a priori theorists whose work was rejected by Ball & Brown as having "limitations", the name of Baxter does not appear.

By the end of the 1960s, LSE's domination of academic accounting in the UK was beginning to be challenged. One of the principal critics was Edward Stamp, an

abrasive character who had spent much of his career in Canada and New Zealand before being appointed as the first full-time professor of accounting at Edinburgh University. Stamp did not ingratiate himself with Baxter by describing British academic accounting as “moribund by comparison with its counterparts in Australasia or in the United States”, and, as Mumford (1994, p. 278) describes it:

[Stamp] was particularly critical of those at the LSE, who, despite apparent advantages in terms of location and tradition, had seemingly failed for 30 years to make an impression on the profession. . . . For thirty years, academic accounting in Britain survived as a small and sickly plant, a small LSE fiefdom only broken up in the late 1960s.

Indeed, the elegant calculations and demonstrations contained in books such as Baxter's *Depreciation* (1971) and *Accounting Values and Inflation* (1975) were not considered helpful in understanding and explaining what accountants actually did, rather than what they should do. New centres of research were emerging at UK universities such as Manchester, Lancaster and Sheffield with very different research agendas. Ironically, the first full-time professors at these institutions (Bryan Carsberg, John Perrin, Tony Lowe – see Parker, 1997, p. 48) had all studied at LSE. The contribution of the LSE Triumvirate to price change accounting in the UK is a major one, but perhaps the specifics of this are of less interest to current researchers as general inflation has diminished as a serious economic problem. The valuation ideas of Baxter, whether using his description “deprival value” or the more widely applied “value to the owner” description, have had a recent resurgence with the emergence of fair value as an increasingly central valuation approach (Whittington, 2008). The slightly less “mainstream” interest in accounting history shared by the LSE Triumvirate and Basil Yamey has gone on to underpin a significant research field in accounting. But by the time Harold Edey came to retire in 1980, there was a need for LSE's accountants to connect more clearly with the emerging research trends in the discipline. Success in attracting large numbers of excellent students was one thing, but contributing to leading-edge research was another.

APPRAISAL

Could things have been different? Counterfactual history (see, for example, Lee, 2006) needs to be handled with care, since it involves a considerable degree of speculation. However, it is possible to identify factors that inhibited the ability of LSE to respond more positively to developments in accounting research at the end of the 1960s. The first of these is the age of those involved. Baxter was 60 years old in 1966, and Edey was 53 (by this time, Solomons, who was slightly younger than Edey, had moved permanently to the USA – Napier, 1996, p. 471). Although both of them remained intellectually active well into their tenth decades, their ideas about accounting had become entrenched. This would have been a particular issue where accounting research was moving in a more quantitative and particularly statistical direction. Baxter himself admitted that he needed to call on the assistance of a mathematician (Norman Carrier, Reader in Demography at LSE – Baxter, 1978, p. 20) to help him sort out the application of compound interest and discounting to a formulation of replacement cost depreciation (Baxter & Carrier, 1971). The age factor was mitigated to some extent by the appointment of younger colleagues, but the full-time appointments were almost always lecturers in their early to mid-20s, usually with a professional accountancy qualification, but with little if any experience as

researchers (no appointee had a doctorate). Most junior academics moved on to other universities after a few years, and the Department of Accounting was not regularly refreshed by the appointment of active young researchers aware of current developments in the study of accounting. Baxter did encourage some younger staff and students to study in the USA – a notable example would be Anthony Hopwood, who pursued a PhD at the University of Chicago after gaining a B.Sc. (Econ.) from LSE. However, their US experience made such people even more attractive for professorial appointments at other UK universities on their return.

Although Baxter and Edey both stressed the importance of economics to the study of accounting, neither of them had studied economics formally beyond bachelor's degree level. They acquired their knowledge of current developments in economics almost by osmosis from discussions in LSE's Senior Common Room. This meant that they lacked the systematic appreciation of both qualitative and quantitative approaches to economics that would have come from a more rigorous study of the discipline, and in particular neither of them had more than a superficial understanding of inferential statistics and econometrics. They both understood statistics in a “business” sense – the collection, tabulation and analysis of quantitative data as a by-product of their accountancy training. Edey applied this appreciation of business statistics by collaborating with economist Alan Peacock on an introductory textbook on national income accounting (Edey & Peacock, 1954). However, Baxter and Edey preferred to think and write discursively rather than through algebra.

Baxter and Edey had quite different personalities, but these were also barriers. Baxter (1978, p. 18) himself was to describe the 1950s and 1960s as “idle times”, and Carsberg (in Bromwich & Macve, 2006, p. 17) has observed how: “We often used to eat lunch together as a Department but it was noticeable that Will would disappear rather early. We supposed that this had something to do with the settee that he had somehow secured for his room.” There was no sense of urgency, of pressure to “publish or perish”, rather a feeling that ideas needed to be polished for many years before they could be exposed. Hence, Baxter did not write a book reflecting his interest in price change accounting until after his retirement (Baxter, 1975), and his articles in British professional journals had little international impact. He did not even provide a rigorous statement of the deprival value concept until the 1970s – this was left to Solomons (1966) and Parker & Harcourt (1969, p. 17). On the other hand, Edey worked heroically in many different activities, including internal management of LSE, professional contributions, memberships of committees and authorship of textbooks, but tended to see accounting theory through the lens of the practitioner. Although his memoirs (Bailey, 2009) are subtitled “20th Century Accounting Reformer”, one gains no sense of any *intellectual* reforms, only institutional ones. Edey was a valuable link with the ICAEW, while Baxter, a Scottish Chartered Accountant, demonstrated little interest in building institutional connections with the practising side of the accountancy profession. As a consequence, relationships between the profession and universities in the UK were limited until Edey became better established.

LSE was particularly well-placed to build stronger links with the USA, since it had a much stronger institutional profile outside the UK than any other university in which accounting was taught and researched (in the 1950s and 1960s, accounting was not taught and was barely researched at the only other universities to have equivalent

international reputations, Oxford and Cambridge). To some extent, Baxter had benefited personally through being able to invite visitors such as Bonbright and Davidson, and through his return visits, but even in the 1960s it was difficult to conduct sustained research relationships at a distance. Academics relied on journals, but, as already noted, English-language journals were scarce in the area of accounting until well into the 1960s. In addition to *JAR*, the journal *Abacus* had been established in Australia in 1965, and the first issue contained contributions from Bob Parker (1965), now at the University of Western Australia, and Ronald Brooker (1965), who had taught accounting at LSE for several years in the late 1950s and early 1960s, but who was now at the University of Sydney. However, Baxter did not contribute to *Abacus* until the journal was well established (an article on depreciation theory – Baxter, 1970). At least Edey provided a paper for the inaugural issue of the UK journal *Accounting and Business Research* (Edey, 1970).

The clear implication of this is that the accounting academics at LSE were poorly equipped both intellectually and in terms of personality to contribute to the developing quantitative and finance-based programme in accounting research developing in the USA in the late 1960s. Because of their reluctance to publish, even in academic journals over which they had some influence, Baxter and Edey had only a limited international reputation at the time, one that has if anything faded since the 1960s. By the time Baxter came to retire, in 1973, universities such as Manchester, Lancaster and Edinburgh were well ahead of LSE in the application of economic theory and statistical method to the study of accounting, while Sheffield, under the leadership of Tony Lowe, was becoming the centre for more critical examinations of accounting. In the longer term, the legacy of Sheffield has had a greater international impact on research in accounting than that of the LSE of the 1960s.

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