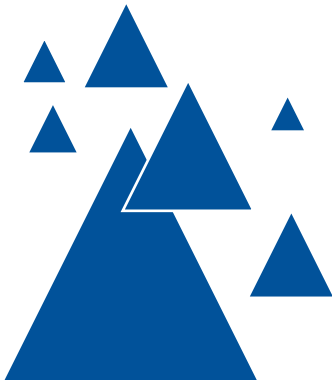


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Interview with William W. Fea

by Michael Mumford



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WILLIAM W. FEA
INTERVIEWED BY
MICHAEL MUMFORD

30TH OCTOBER 1979 AT GKN'S HEAD OFFICE

My thinking about accounting was boosted by the schools for returning servicemen. That would be the Summer Schools at Oxford after the war. There are six or seven papers in particular. I've just been re-reading them. I couldn't understand some of them I must say. [laugh] But I'm pleased to say I was backing computers in 1954.

Really - that early!

It was rather early. I flatter myself that I did see the possibilities there. The other thing I think I can say is that GKN were pioneers in depreciation uplifted to current purchasing power.

This is an area that interests me very much.

Yes, I thought you might be. I didn't design it. My boss did when he was chief accountant; we worked together on it, but it was his basic idea. And I am glad to say that the Board has kept this up ever since - actually, it has rather gone to town and saying they wouldn't dream of abandoning it. All the scribes [working on accounting standards] have taken it to pieces, and added bits back, and there are all kinds of calculations. I still think it's the fundamental point.

Yes.

However, you were going to ask me a question.

Could I start from the beginning, in professional terms. You qualified in a professional firm?

Yes. My history briefly was this. I was fortunate enough to get myself educated at Oxford.

Reading?

Well, I read maths. I took first the 'Mods' in maths ['Mods' refers to the first year exams] - because figures have always been my pride and joy. I've enjoyed figures - that's all that I can say. I had satisfied my colleagues, because they'd been kind enough to give me this scholarship. I went to my tutor and I said: 'Sir, I've got to the point when I can't understand the maths that's going on now. What can I do about it?' He said: 'Well, you've been a Philistine all your life - why not do something different. Go in for Philosophy, Politics and Economics'. So I took Modern Greats. I didn't do any work. I only got a second [class honours degree], which disappointed me but I really didn't deserve any more.

And I never regretted that. I learnt so much in terms of - I don't mean knowledge but, you know, the general approach to business it was fun. So that was it. Then I went and was articled in London.

You came down?

I came down in 1925. No - I beg your pardon, I came down in 1928; yes; that's right - I was 21: I was born in 1907. So I came down in 1928, and I was articled to a small firm in London and had the three year [articles] of course, having got a degree. So I qualified in 1931. They gave me £3 a week then, and they offered me £3-10 when I qualified [laugh]. I don't want to bore you with personal reminiscences but they set a background perhaps.

I think they do. I think they're very valuable, yes.

You had to live under those conditions. And then I went, through a family friend, to a well known firm in those days called Broads Patterson - they are now part of Arthur Young.

I know the name.

You know the name. Very fine old firm, splendid partners. One (Percy Broad) took me out to lunch and said: 'Well I think I can improve on that - we'll offer you £4 a week'. So I took the job on the prospect of £4 a week, and I thought I was jolly well paid. I was jolly glad to have a job.

Because to take articles cost a premium in those days, didn't it?.

My mother had to pay £300 premium and they said: 'Oh, we'll pay you back'. My mother was a widow with five children to educate, so, you know, I had to do everything I could. I was lucky enough to educate myself at Oxford. I got enough scholarships just to be able to pay my way. But after that, she had to save up; she saved up 300 quid, and I don't know how she did it. And there it was. After that, I had to make my own way.

But your intention when you had qualified was to stay in the profession, rather than go straight off into industry?

It was, then. And then one day my partner sent for me - a splendid chap called Percy Broad. He'd been a tea planter and came into the profession rather late in life. And he said: 'I think I ought to tell you that we've got a good many sons and nephews coming up in the firm. You may have been wondering - I don't think I could say we could offer you a partnership for quite a long time'. So I said: 'Well thank you, Mr Percy, that's very kind of you'. He said: 'What would you like us to do?' And I said: 'Well, I've got quite an interest in industry'. And after that he put me onto jobs that

involved cost investigations and that sort of thing. And he said: 'Oh, I'll speak to my brother, Douglas'. Douglas was then chairman of a venture corporation, with a very wide contact. About three months later he sent for me and he said: 'There's a vacancy going at Barrow Hematite Steel'. That should ring a bell.

Rather - yes.

He said: 'They want a secretary/accountant there. And there is a partner in Peat's called Harold Howitt who is looking after it. If you're interested, I'll send you along to see him'. So I went along, and I became a life long friend of dear Harold. We had a long chat, and he recommended me to the chairman. I went in to see him and I got the job. And I went up to Barrow, and I worked there for a year or two: a fascinating job. They had no money. When the bills came in, and they had all been checked through the statements, I drew the cheques, got the directors to sign them, and I kept them in a drawer. And every day I got the bank statement and I paid the most urgent ones. But I had about £100,000 - that was a lot of money in those days - in my drawer. Very educative [laugh].

Yes, I'm sure. How did you take to Barrow? That must have been quite a shock.

Oh - I loved it.

Did you?

Yes, oh yes. Splendid place. Yes - I was very happy there.

I live just round the corner, in Silverdale. The train journey to Barrow is rather special.

We used to have our board meetings in London on a Friday, which was very thoughtful of the board because obviously I didn't get home until about 7 o'clock on Monday morning. I used to go back to Barrow on the night train from Euston. I was courting then. I worked damned hard, I must say. I used to get up at midnight quite often and go out in the steel works, and they were tapping the blast furnaces, and I loved it. I quickly put in a cost system largely based on United Steels - the famous Simpson of United Steels. We had working arrangements with them. I don't know whether you've heard of Simpson - H. A. Simpson?

No, I don't him.

Oh, one of the great pioneers of cost accounting in this country, he really was.

It is interesting - we're talking here about the early 1930s: we're talking about 1932/33?

Yes. Early 1932/33 - that's right. Simpson's book, H A Simpson 'Works Accounting' or something like that, was a classic in his time and I do recommend it. I became a complete devotee of Simpson. My company at Barrow had relations with United Steel and I had to go to there on business. We had a very private agreement, supplying rails to the railways. I had to go there two or three times, and I became very friendly with Simpson and sat at his feet. And I put in a lot of his systems at Barrow. But it was quite incredible history - it was absolutely at the bottom. They'd got no clock cards, they'd got no labour analysis, they'd got no stores requisitions - oh, the whole thing was chaotic. And I managed to find two or three good chaps. It was the kind of job that will spark other people off to do. And one day my chairman rang me up and he said: 'I've borrowed some money in the city of London: we'll pay off that 'something' bank - come with me to Manchester tomorrow'. So we went to Manchester, we paid off the District Bank [laugh]. The biggest day, I think the biggest celebration

I ever had at Barrow when we paid them off. He was borrowing on the deposits of pig iron, deposit receipts - it was a rather advanced form of getting credit in those days. And you see I was able to pay all the cheques. A great day!

Then I got married, and I was rung up by a friend called Julian Pode, who used to run the Steel Company at Wales. He was also a chartered accountant. He married one of my girlfriends, actually, [laugh] a cousin of my wife's. And he rang up and he said: 'would you like to go to Guest Keen and Nettlefolds?' And I said: 'what's that?' He told me a bit about them. Their accountant had just died playing golf, and they wanted a new accountant. It was not the chief accountant of the company - it was called the 'accounting secretary of the Nettlefolds Department'.

And so I responded to the invitation from Jim Jolly, who was then the managing director. He was a chartered accountant - the first one in GKN. And to cut a long story short he offered me the job and I took it, and I've been happy ever since. And I went what's called 'down the road', to the Nettlefolds Department, which is now of course unfortunately one of the main dogs, thanks to the Japanese and the Koreans. I started there in March 1935.

Had you done any costing work at Broads Patterson?

Yes, they very kindly put me onto costing work at Churchill Machine Tool; do you know that company up in Altrincham? And they put me onto investigating and helping them develop their costing system. So I did learn practically, as well as theoretically. And in Barrow I really had to learn; I was virtually wet behind the ears and I really had to go in at absolutely basic level, you know - design everything, put it in: simple things, we weren't highly mechanised, as you can imagine, in those days. And then when I came to GKN, Jolly was very interested in it [costing], and I think that's

probably the reason I got the job. Because he said, 'we need a breath of fresh air through the accounting team - somebody new'.

So I picked up an old cost accountant, who became the chief cost accountant while I was appointed chief accountant. He was very conservative, shall we say, but a damned good accountant. I used to try out my silly ideas, as a young man, and he pulled them to pieces. But between us we did develop them [laugh]. We brought in mechanisations of all kinds.

We went into balloons at the beginning of the war. We flogged balloons to Coventry for three or four months and then my boss said: 'well, it seems to be damned silly - you know, this is a phoney war; I think I'd better get you back into GKN'. And then of course I became a reserved occupation, and I couldn't get out after that. It really was a period of a phoney war, and nothing seemed to be happening. I was just wasting my time really. So I stayed at this group. Wexford Cumming was a director then. And then I had already been working on central accounts to a certain extent by 1948, and the then secretary and chief accountant retired and a chap called Bill Nicol, who was a Scottish chartered accountant - quite a distinguished figure - he was appointed secretary and I was appointed chief accountant. We were great friends and the boss said to us: 'well I don't know how to sort out the job. Will you do it?'

So we sat down together for a week or ten days, and we sorted out what each of us ought to do - and then we worked as a partnership ever since. GKN was a biggish company then, and that is the first time that I think a big company had decided to separate the secretarial/administrative functions from the purely accounting ones. And I insisted on that. I said 'I cannot take that job unless I'm given a free hand in accounting'. And I said: 'I'll keep Bill in touch with all I do and I will learn from him, and I won't interfere with the secretariat', and the boss agreed. He said go ahead. It was rather an unusual assignment. We wrote our own specification.

In 1948 there was the new Companies Act - in 1947 and then the 1948 (consolidated) Companies Act.

I was going to ask were you consolidating the accounts before that.

I was really given the job of consolidating them. By that time I'd got onto the Council [of the Institute of Chartered Accountants in England and Wales], I think [mumble]. But I worked with Campbell, G. Campbell, and he was chairman of a sub committee of the Institute set up to issue recommendations on consolidated accounts.

This is one of the sub committees?

Yes; you will probably find it, I'm sure, in your records. I can't remember if it was a sub committee of the T&FR, as it was known in those days - the 'Taxation and Financial Relations Committee - or whether it was a subcommittee of the Council. I wasn't on the Council; I was on the T&FR. I became chairman of the T&FR, and then they elected me into the Council. [He was probably not in fact chairman of T&FR until he joined Council.]

But Campbell I had a great respect for. And of course Apsley Morris was there. I was doing the practical work in GKN of a dummy run on the 1947 accounts to reflect the Act, and at the same time learning the theory, shall we say, in London. My boss said: 'what are you doing going off to London so often?' I told him the story, and he said, 'OK'. We had lots of meetings. There were Percy Rees, who was then chief accountant at Unilever, and Francis de Paula, who of course did the first decent set of consolidated accounts in this country, for Dunlop. They were the two leaders, I reckon.

In this working party?

Yes, in the working party. And they were the two leading industrial accountants of the time, I would say, certainly as far as the Institute's affairs were concerned. Even the practising accountants deferred to Percy Rees and Francis de Paula.

I take it he was a Fellow - he had been in practice long enough to become a Fellow?

In practice - yes. Yes, Francis de Paula you mentioned. I think you know Clive, and so do I, quite well. I had great respect for his father - he really was a pioneer, and he could speak awfully well too. He gave a paper at Oxford when they started the summer courses at Oxford for the returning servicemen - you know, that's how they started at Oxford. And Francis de Paula gave one, and then he bullied me into giving one a year later.

Well, I'd like to come back to that and ask you a bit more about that.

That I thought was the best possible introduction, because consolidated accounts for a very - I shouldn't say disorganised group, more a 'unorganised' group - the legal necessities of that did more to force us to become a group than anything else. It was very odd. We had a chartered accountant as managing director, who later became chairman - Jim Jolly. We had four main directors: he was one of them. And then Kenneth Peacock, who later became chairman of GKN, who was my boss. I worked for him the whole of his life. He died after a time and I was very fond of him. I couldn't have got through it if I didn't get 100% backing from Kenneth the whole time.

I helped him to the extent that he got a grip of the group. He came up to head office; he'd worked down there [at the factory], and I said: 'You must come to head office - that's where you ought to be'. He said: 'Oh no - I like it down here'. Eventually, I and other people too bullied him into coming, and he was a terrific chap and he really took it up. But I was

able to help him in that way because I was really having to make demands. In the past, it had been: 'oh please, do this and that', and the secretary literally had three or four pieces of paper that he wrote on, and he took those to the board and that was the accounting for the group. Well, I was able to say: 'We have to have consolidating accounts, therefore I must have them standardised'. And I designed a summarised trading account, which they still observe.

I was asking my present financial director, Paddy Custis, and he said: 'well - they've still got it' [laugh]: they've scrapped everything else, I think - and a P&L account, and a balance sheet. I had to have those. And I said: 'Look, if you want to have accounts for the board every month, which you've ordered, will you allow me to insist that every company produces one of these every month'. It took a bit of time, but we did that. That forced a certain degree of central control that had been entirely lacking.

Was there no standard costing system?

No. The group, you see, is enormously varied, and standard costing system such as we were setting up in the fastener side over the years was entirely inappropriate for forging, or for the rolling mills, or the steel making - we owned steel making in those days. Oh yes, or Sankey's wheels, and all this kind of thing. We were evolving principles, and we gradually set up standard costing, based on the same principles of course, but that was a long way ahead. But we could insist on standard financial accounts with all that brought; as you could imagine, it took several years. And then we'd got distribution companies as well, and that was particularly difficult.

So what approximately were you talking about: 100 companies in the group?

There were about a 100 then - yes, that's right.

It must have been a major job to pull those together.

It really was. I was terribly lucky. I had of course a good assistant, and one absolutely splendid chap who, when I retired, succeeded me as financial director, Fred Rowbottom. And he was marvellous, he was a perfectionist, and we just worked together like that. And of course there were a number of other people. But it was tough going. And it included bringing in overseas because I insisted we'd got to do the whole job. I went out to Australia and I went to India and South Africa, and Sweden, to lay down the law [laugh]. They took it all very well, because they understood what the purpose was.

What about the role of your auditors in this; who were your auditors?

They were Carter & Co, who then of course merged with Coopers. I always insisted that we would deal with the local people because we always had the head office people in Birmingham. When I say: 'We can't deal with the management' [of Carter and Co], well we had them as a Burton firm for many years. The original Carter was of course one of the founding members of the Institute, so it was a very old firm. I always remember to this day, with some pride, that when Coopers and Carters were talking together, both the senior partner in Carters and Henry Benson and John Kerr, who were I think the senior partners in Coopers, came to see me separately and said: 'What would GKN think if we go together?' We were the largest clients of Carters. And I said: 'Well, in my opinion so long as you will allow us to go on dealing with the Birmingham side on the practicalities, we shall gain from the better advice on foreign affairs that we can get from London, and on taxation - I mean all the specialists'. But I said: 'They're jolly good down to earth people and I can ring on the phone and somebody will be round in half an hour if we've got a real problem': I said: 'We can't do that in London'. And they took the point. They quite understood and they allowed Carters to have complete autonomy on the job. It has been a success from our point of view.

I mentioned it because I wasn't sure whether your auditors might have been in a position to give you any advice on consolidation.

No - they were not. They were as weak as we were. [laugh] We were all learning together - that was the interesting part, you see. Because the war had stopped everything, as you can imagine, and when the Act came in - the 1947 Act and then the 1948 consolidation - well, Campbell's Committee had a lot of high powered London accountants. Some of them knew a lot more about it. Price Waterhouse was the chap, of course. And Coopers - well, we were all learning together, which was a great thing. And, of course, naturally we didn't go on unilaterally; we had discussions with our auditors, of course, on all these points, but it was a team job: we did it altogether. But naturally I had the chief responsibilities, being the chief accountant to recommend [the accounts] to the board. I had a frightfully good financial director, who'd been a partner in Carters, Archie Gadsby - he was a great man, not known outside the Midlands. He was very 'anti-City' [laugh].

And he was the designer of what we were unique about for many years - this extra depreciation. He and I worked out the formula together, but it was his original idea. I always give him credit for that. And he was a splendid chap to work for because, being an accountant, everything I was talking about, being on the board he could see things through. I had the privilege of attending the board meeting the day I was appointed chief accountant, on 1st of April 1948. The secretary went, and because we'd split it up so amicably, they said: 'Well, we must have the figure man there - we can't do the accounts'. So I attended the board from 1st April 1948. I wasn't allowed to speak, of course, unless asked a question. And in 1958, ten years later to the day, I became a director.

So that was chief accountant of GKN?

No, of the group.

Not the Nettlefolds division?

No, I'd moved up in 1948. I had had 13 years at Nettlefolds, and I moved up to be group chief accountant, and Bill Nicoll was group secretary, and I held that position 1948 to 1960 when I became financial director in 1960. Ten years after sitting with the board, I was allowed to open my mouth [laugh].

Yes, so you became a director in 1958.

I was chief accountant and a director, and Archie Gadsby was for two years finance director. It was rather odd that they had two directors, but they were kind enough to put me on the board then. And then in 1960 he retired from the financial directorship, but he stayed on the board for a few years. Marvellous chap - he never breathed down my neck at the board after he'd retired his position. If he didn't agree with something, he always spoke to me privately; there was marvellous loyalty there.

Yes, yes, it is unusual that you had several accountants on the board, didn't you, including the chairman.

Yes, well Jolly said to me after I'd been going for about a year: 'I want to have a policy that every big company in the group has a chartered accountant in charge', and he worked on that basis. Well, Trevor Holdsworth who's going to be [the next] chairman in GKN is a chartered accountant. I took him on, actually, when we were short. Whether it has been good or bad for GKN it is for other people to decide, but we always had chartered accountants in senior positions.

Yes. Can I go back again before the war to pick up one or two points?

Yes, yes.

You joined the ICAEW in 1934. At what stage did you start to get involved again? You'd left London effectively.

Yes. Norman Lancaster, whom you mentioned, rang me up one day. He was the first person I knew in Birmingham. We had had an introduction in 1935 when he came to live in Birmingham, so I got to know him personally and he was also a member of Moseley Rugger Club, which I joined. He rang up and said: 'Bill, I'm having to resign from the Taxation and Financial Relations Committee in Birmingham' - he had done some very big jobs some of them - 'and I'd like you to consider going on it'. And I went and talked to him about it, and that's how it happened I was selected to the T&FR Committee, in Birmingham. I became chairman of that, and then I was elected to London, in the days when Percy Rees and Francis de Paula were on it, and then I became chairman of that. That was 1948, I think.

The pattern of having a set of T&FRs at district society level came very early on, didn't it?

Yes, it did.

Shortly after the T&FR was set up in 1942?

Yes; whoever's idea that was, I don't know. It was very good because it got the provincials implicated - involved. I had the most odd people on it, including Halford Reddish who ran Ready Mixed Cement - he was on it. He was on the committee when I was chairman, actually. They really got a lot of people interested. He didn't stay on for more than a couple of years, or so but it meant that we did get industry interested in the Institute's affairs.

Birmingham would have been an exceptionally important society.

Yes it was; I suppose that's fair to say, yes.

So much advanced engineering.

And we thought, frankly, that there was so much more knowledge and practice of industrial accounting and cost accounting. At the end of it, they always said: 'well, the boys in London are marvellous about the City and financial accounts and tax and all this sort of thing, but they don't know anything about the shop floor'. Through my experiences in Barrow, I'd been brought up on the shop floor. I felt and I could go and talk to the chaps. I think it is awfully important that every accountant in industry - I don't know in these computer days - has got to be able to walk round the shop floor, and they've got to know who he is and talk to him. He shouldn't be 'one of them' - he should be 'one of us'. I hold that belief very strongly.

Well, that's my view, very much, but I trained in industry. I worked in Dunlop's.

Oh, did you?

I qualified as a certified accountant.

Yes. With Dunlop's here?

In Head Office, and then I came up to Fort Dunlop.

Yes; oh, well, you will agree with that point of view.

Very much. The Birmingham T&FR. Was Stanley Dixon involved in it?

Not as early as that. Stanley Kitchen much later. I think I got invited to go and talk to - was it Nottingham chartered accountants? That's when I first met Stanley Kitchen. And then he moved into Birmingham. He

worked for a firm and chucked the job up and came to Birmingham. That's right; you'd have to talk to him direct.

Stanley Dixon?

No - this is Stanley Kitchen: sorry.

Stanley Kitchen.

Stanley Dixon I didn't really know until he

He was with the Yorkshire and Midland Tar Distillers.

Yes, Midlands Tar Distillers at Oldbury - he was the accountant there.

So Stanley Kitchen was also in the Midlands at one stage?

Oh yes, he was a partner in a firm.

I thought he was in Yorkshire.

No, no he was a partner in a firm of chartered accountants for several years in Birmingham.

That is interesting.

Yes, I suppose Birmingham had all sorts of people. Leonard Barrows, whom I knew very well, and Peter his son. He was the first President of the Institute for many years from this part of the world. Right up to Eric Sayers.

What about Lawrence Robson? Did Lawrence Robson get involved in Birmingham?

No. I knew him pretty well, and Ian Morrow too. I worked with Ian Morrow on another job. But Lawrence, no; I don't think I ever saw him in Birmingham. He may have come down once or twice for lecture tours, and this sort of thing. He had a dual personality - or treble personality. He was president of the Institute of Cost Accountants, and then of course he had the management consultants, which became Robson Morrow and then he was also a practising chartered accountant [laugh]. Quite a chap! A great man, I thought, Lawrence - in many ways. Apart from that, he was chairman of the Liberal Party, wasn't he? I knew Lawrence well. I haven't seen him for years; is he about still?

Yes, very much so.

Oh, good.

Yes. I went to see him to talk about the history of accounting.

He gave a splendid paper at Oxford, on one of the Oxford summer courses, a pioneering paper which I thought was awfully good. Another chap who gave a pioneering paper, which made a deep impression on me and I think a lot of other people was the fellow Reynolds - not Hans Reynolds, but Hans Reynolds' son. I quoted him in one of my papers. For those of us of that generation, the Oxford courses were absolutely marvellous. It was the first time the Institute had really brought people together for a week under splendid conditions and invited a number of people to give lectures and talk. I think I went to about five or six, and I learnt more from that than I think almost anything else.

Did that arise as a result of the refresher courses?

I'm sorry - it is the refresher courses I'm talking about. It was somebody's idea in London, that the people coming back from the war needed refresher courses - that was what it was for.

I gather that was Frederick de Paula, who had been involved at the end of the First World War in doing that.

I think you are right; I think that's right. And that's why he gave the very first paper. I went to that. I remember it being very good. He and Reynolds I think were the first two papers. I think so. Yes, that's right - Fred de Paula did that; it was one of the best things he ever did for the Institute which was marvellous; it got so many people together. And besides being a refresher for them, they were kind enough to allow anybody to go. And I had wonderful experiences in 'The House' - we all lived in Christ Church [college].

That must have been a really nice home-coming for you.

Giving a talk at that wonderful hall! It was the first time I'd really had to lecture in a big public place, to a critical audience - so it's really something I shall never forget. A great experience.

You'd been invited by whom to attend, do you remember?

Well, I'd gone under my own steam and taken part in the quiz. I think Freddy de Paula asked me to take part in a quiz. I don't know - I cracked a joke, I've forgotten what it was, but [laugh] somebody said: 'Well, this chap had better give a paper'. So I had to give a paper the following year. Nobody had cracked a joke before. I was rude about the Institute's motto - you know, the woman sitting in a very precarious position with considerable danger to her private parts, I thought, and I made some remark about that.

The odd thing about the Institute's crest is the fact that the balance which she is holding is off centre - the balance pointer is way off centre.

Yes, you are quite right.

I can't understand why it should have been designed in that way whereas it ought to have been purely vertical.

They wanted the assets to be greater than the liabilities... I think it may have been a remark about that; I've forgotten - it's so long ago. But I believe that I did get it right. I never lost interest. I found the main thing about giving papers was that I gave a lot of time to it - very little in the company's time. My wife always accuses me that I spend all my time at home. I'm sure you find this; there's nothing so good for learning about a subject as to have to try to lecture about it. That's the reason I kept it up, for quite a long time.

I'm jumping ahead a little bit here. I've been trying to get something drafted just recently myself on this old, old problem of backlog depreciation, but it seems to have disappeared from view again.

Has it yes? I can produce something for you on that. [laugh]

It's such an interesting question. I drafted something and the editor has sent it back and said: 'No, I'm not quite sure you're being fair to the other side - would you like to look at it again?'

You don't have to be fair to the other side, do you? I mean, are you desperately writing like the good lady on the crest, with the bias pointing the other way? I think in accounting one has to have biases. In the end, perhaps, there's got to be a publication and all points of view should be taken into account. But the Institute has waffled so much through trying to reconcile so many different points of view which are irreconcilable, some of them.

Having got involved in the refresher courses, then, you also took a part in the summer schools?

Yes. The refresher courses sort of came to an end, I suppose, after three or four years when the chaps had come back, and became summer courses. I can't remember the exact date. Thank God they've burnt most of my papers. My earliest paper was on the presentation of accounting statements, and that was published in *The Accountant* in 1949. [Looks at a file of refresher course papers.]

It sounds entirely apt.

So that was, I think, was my first bursting into print. There was a paper by Freddie de Paula, 'Developments in Accounting'. Oh - Sir Charles Reynolds - that was it. He was the chap I was trying to refer to; and Norman Lancaster. Norman gave a talk - and Lawrence Robson, there they all are. So you might like to read that, because there's quite a bit of history. I purposely went into history. I brought these out, and you're very welcome to them if they're any good to you.

I'd be most grateful. I'd love to.

Well, that was that one. And that might help. you because it was written in 1949 and it does bring things up to date.

The Accountant was very authoritative in those days. It seems to have lost some of its influence over recent years.

Has it? I never read it.

Well, I think that's significant. I think it has been overtaken by *Accountancy Age* and *Accountants Weekly*.

Yes, I think that's right. It seems to me a pity that there are always arguments about its contents. But it was prescribed reading for me in those

days. I read papers and letters, articles on taxation - they have become such enormous subjects.

What about other material? We were talking a little while ago about consolidations.

There was a publication by the Institute. It was officially approved, and I think it was a bit of a landmark because we managed to get some principles into it. I learnt an awful lot on that.

This was very much a matter of talking about it. There was very little written on the subject [of consolidation] beyond Thomas Robson and Garnsey.

Yes, Garnsey first. Tom Robson's [book] came later. He was on our committee, I think. I'm not absolutely certain of that fact. I can't remember the members of that committee. I remember very much the membership of some of the later committees; there is one particular one I must tell you about. But I'm sure the archives at the Institute will say; I expect you are going to go through them. I should look at that because I think it was pioneering; it was the first official statement. Robson's book of course was marvellous, and he developed Garnsey because PW [Price Waterhouse] were leaders.

Yes, they seem to have had very early experience. Arthur Lowes Dickinson had become involved very early.

Yes; he was the American partner, wasn't he?

That's right, he spent some 13 years over there and then came back.

And of course they were a hit. I'd done consolidated accounts, strangely enough, in 1933.

Now that's interesting.

I was in Germany and I was working for Broads Patterson, as I told you. They have now amalgamated with Arthur Young's, who are a big American firm. And they'd got the job of the European audit of the Standard Radiator Company - you know - Ideal boilers and that sort of thing.

Yes.

That's the English end of it. It's a big American company with a tremendous long title, and they've got branches all over Europe. Arthur Young's gave BP [Broads Patterson] the job of sending accountants into all the countries - France, Germany, Italy, Sweden, Denmark, this country - about seven or eight. And the headquarters for American Sandstone was in Paris, and Arthur Young's had a small office in Paris, and BP's did. We used to go out to these countries and do company accounts on a standard basis and bring them to Paris to consolidate them. This is pre-computer days and all that sort of thing. We had to put them on a ship - the 'Bremen' it usually was - not later than the 7th of February. It was quite a major job, actually. I learnt an awful lot from there; we all went out about the 10th of January, and we worked for about three weeks in the company, and we all met in Paris at the end of January and put it together. One learnt some elementary things. It is so obvious these days [laugh]. The main thing was to agree the inter-company balances and all that sort of thing.

So I learnt that for GKN. The first thing I laid down was to set up a clearing house here. We had a tremendous performance, with cheques and things passing round the group. I said: 'That's a nonsense: it can all be done by book keeping, and no money need pass. And you've ruddy well got to agree the balance every month, and I shan't accept that the inter-company bits don't cancel out every month'. It took a bit of time to achieve that, actually.

You also resolved, presumably, some disputes going back over the years?

Yes. You forced them to do things. I said: 'It has got to go on the date of the originating document - that is the governing basis'. In other words, we used four and five weeks periods, rather than quarters, and I used to say if it is the last day of the accounting period as the date of the invoice, you can argue that you didn't get the goods till afterwards, but you have got to accept that and you can take it into stock. And so we worked on that simple principle; the date on the governing document was the one that determined the entry in the group's books. There's a principle I learnt through doing those accounts in Europe. That shows how far the Americans were ahead on us, you see.

Quite so. It's exactly the sort of influence that I find tremendously valuable, looking back to see how the ideas developed.

Freddie de Paula, to start with in this country, was a pioneer; and Percy Rees at Unilever's, because I think you'll find their accounts in 1948 were bloody good.

I think they probably consolidated even before the war.

Yes, I think they did; and the Americans. There weren't many other people in this country who were doing it.

EMI, I gather had consolidated before the war.

Did they?

I gather this from Eric Hay Davison.

Oh yes. Is he still going strong?

Very much so, yes.

Oh, I'm very glad to hear it. Remember me to him, if you see him.

I shall indeed.

He was chief accountant at Courtauld's.

That's right.

And then - I was chairman of the most interesting sub-committee I've ever been on, I think; we really tried to tackle accounting for inflation. I had Ronnie Leach, Eric Davison, and a splendid character who dropped out of the Institute but was a real Lancashire type - you know who I mean?

Oh, I know Jack Clayton from that description.

Yes, Jack Clayton; it absolutely fits him. And one other - I don't remember now. We were given the job after the failure of - what is it, 'Recommendation 15' or something - to try and work out the principles which should govern them. What were our terms of reference; they weren't wide.

You were a sub committee of the Parliamentary and Law Committee.

Yes. Well, the interesting thing that emerged from that - and this was unanimous - was that we should adopt for our conversion factor the general index of purchasing power as expressed by the retail price index. And we appealed to the Board of Trade's statistics department, I think it was, and we got the head of that department very interested, and we got him to one of our meetings. And they made a change - this is always happening with statistics - and they decided to build it up in a different way. It was published monthly, and he promised to set up a continuous chain for us.

I think he had to work backwards for this; obviously we'd got to stay with the latest idea and he promised to work backwards.

Now we had already adopted this in GKN. One of the biggest jobs I had to do when they decided to do this was to get all the fixed assets in the group analysed by the year of purchase. That took about a year or two, as you can imagine. I absolutely insisted. We went back to 1937, from my memory, and this was in about 1949 or 1950. So, in other words, anything more than 12 years old we'll just take as 1937. And 1937, we said, is 100. And then we used in the UK the retail price index. Now we were trying to measure; it was as simple as this. And I've never flinched on this in the whole of my accounting beliefs - that it is the purchasing power of the pound that matters and not all these ideas of replacement with that piece of plant or anything like that, or a special index for chemical plant, and another one for ships or something like that. That's a different concept altogether.

We were trying to get the pounds in which the profit and loss account was written into terms of the same value. In other words, we used the foreign exchange conversion idea; that is all. And we've stuck very simply to that. And we do this consistently through GKN. In Australia, we got a corresponding figure for the Australian dollar, and in Sweden. And we've rather abandoned the old idea of trying to convert - which was current in those days - of trying to convert the expenditure of the English pounds, which I think came from branch accounting. Nowadays, I mean, it's absolutely nonsense, when you raise all your money overseas and that kind of thing, you don't send it out from here.

So we've adopted the index appropriate to each country. So if Australia had an inflation rate of 500 against 100, and we only had 400 against 100, they use 500 for their assets, you see. And then we could write it at the Australian rate.

Now, in developing this technique, was this something which grew round the table, or were there other sources which you found available for this?

To be quite frank, Archie Gadsby and I did it; we didn't consult anybody else. We went along to the auditors, and we worked it out and discussed it with them, and we said: 'will you qualify the accounts?' And they said 'no' - after discussion of course. And we've always had a 'true and fair view' [audit report], in spite of doing this.

Well, Coopers are the auditors for Philips, aren't they?

Yes. Well, in one of my papers I've quoted a lot of Phillips, because they were pioneers - but they've been using replacement costs: that's the difference.

That's right - quite different. Yes.

I had a big argument. I sat on the David Barron Committee of the CBI [Confederation of British Industry, commenting on inflation accounting]. We had most of the big companies. There was old Shawcross there from Shell; there was a chap from ICI who was then director, chief accountant. I had fierce arguments with them because they wanted to do it on replacement. David Barron backed us up - two or three of us who were on this purchasing power of the pound, and so we came out quite strongly. I was nominated onto that by the Institute, actually. It was terribly interesting meeting these different points of view. Not that one would like to say that they were wrong - they were different, that was all. I think you would agree; there are so many concepts.

We simply had the concept that if we'd got the P&L account right in terms of current pounds, everything else would fall into place. We've stayed with that since, and GKN still does that.

There had been some experiments before the war in Germany and in France.

Yes, I believe so. I wasn't sufficiently up with it, but I did catch up with those, particularly in France. And then, of course, with the German mark catastrophe they had to start all over again.

Yes. This had been written up by Henry Sweeney in America, but I don't believe that Sweeney was widely read in this country.

I don't think he was. I came across it long after we'd done it. We honestly didn't know anything about it. We evolved this just - you know, it was on first principles. But I can say lots of people are thinking along the same lines simultaneously, aren't they? And I mean they have found this in so many scientific fields, haven't they? They are quite astonished when somebody publishes something, and they say: 'oh, damn - I was going to publish this; I wish I'd done it last week!' [laugh]. But we were the first big company in this country to do it. [Interruption as documents are brought in.] That's amazing [reading from a document]: 'The effects of Inflation on Distributable Profits': that was this committee, which was set up when I was chairman. That was in 1966 through the whole of 1967, and our correspondence included that with Professor Edey, Bill Carrington and lots of correspondence with Ted Parker.

Ted Parker was very influential in *Accounting for Stewardship in a Period of Inflation*, which was published in 1968 wasn't it?

Yes, yes. But he went for totality. I found a lot of correspondence there on converting the balance sheet, every item on the balance sheet - what he called 'the network'. And he shook us quite a lot, actually - he was so persuasive.

But in the end we refused to bite; we wouldn't go the whole way. I think Ronnie Leach was one of the people who stuck out, and I did too actually, and I said: 'Whatever the merits of that may be, our job is [to show] the effects of inflation on distributable profits'. We thought that was a different view from, say, the [gains and losses on holding] monetary items, where you are up against a different kind of thing.

So we concentrated on the P&L account. Look: there's a letter from Eric Davidson. I laugh a lot if I read some of that. And then this is David Barron's Committee, the CBI Committee. [Reading] David Barron; Charles Bingham of Stanley Blythen & Co; Stanley Harding, finance director of Thomas Tilling; David Hobson of Coopers; D. A. Hunter; Andrew Johnston of Schroder Wagg; McKinnon, chief accountant of Imperial Tobacco; [A. J.] Laurence, financial director of Hawker Siddeley; Lord Melchett of British Steel Company; Sir William Strath, deputy chairman of TI [Tube Investments] - oh yes: I did a lot with him; [F. J. K.] Hillebrandt, treasurer of ICI; [Harold] Ward, financial director of Dunlop; Richard Young, chairman of Alfred Herbert; and [A. W. P.] Stenham, director of Unilever. You see it was quite a high powered committee. David Barron who was then chairman of Shell. [Interestingly, this list omits L. F. Robson, representing The Electricity Council.]

And that was set up in the late 1960s, was it?

No, 1972.

There was an interim report before the Sandilands Report came out, and then a final report somewhat later.

It was set up in 1972 and I stayed on it - I retired in 1972, and they kindly asked me to continue and I stayed on until it finished in December 1973, I think. It was most interesting.

Douglas Morpeth was involved in that too, I think.

Well, he was the President [of the ICAEW] I think at the time, and we kept a liaison of course with him. Oh, Tony Burney was on too; he was on the Council [of the ICAEW] with me. He was chairman of Debenham's. Sir Anthony Burney. And (W. R.) Booth, a director at Tate & Lyle. Booth resigned in February 1973, and Tony Burney in June 1973. Oh, and Gadstone, group chief accountant at Courtauld's. Then we had Leighton Boyce from Pilkington. So it was the top companies, very much, because we felt that it had got to be solved by the big companies before anybody else could really sit up and take notice.

It is significant that this committee of yours in 1966/67 was set up as a sub committee of the Parliamentary and Law Committee rather than T&FR.

Oh, T&FR by that time had become the Technical Advisory Committee, hadn't it.

Oh, yes.

Having been chairman of one, and I could have been chairman of the other, I can say that Parliamentary & Law was looked on as the senior committee.

I'm sure

It was a Committee of the Council, so that was the reason it was felt so important. We were given the job, and not through the technical advisory. I think they'd done their stuff, and we had their papers and so on. [Reading] I wrote to Platt, the research secretary: 'Thanks for your letter enclosing detailed redraft of certain sections of the book.' Here is a letter - three pages - from the research secretary: 'Mr Clark informed me you should

be given the assignment to deal on behalf of the Research Committee for the preparation of a document based on the work of the Appropriation of Profits sub committee of which you were chairman'. They must have been proud of that.

You are right - it was the earlier 1960s [rather than 1966/67]. This thing went on for so long; it is still going on.

Yes, it is of course, yes.

And Platt wrote me a very good letter, and said: 'Mr Parker, however, took the view that this should be regarded as capital rather than liabilities after consideration, given the treatment of preference and long term loan capital'. Ted Parker was always on the balance sheet side. I thought he put too much emphasis on the balance sheet. [Reading]: 'I want to stress that the committee's concern was with the profit and loss account, and it was highly reluctant to be drawn into the treatment of net monetary assets.' Funny - I wrote that at the time, during 1966; that was my reply to Platt.

Oh - Stafford; there's the Board of Trade chap. Mr Stafford who was then director of statistics, and he was the chap that helped us so much with the price series.

The consumer expenditure deflator, I think, was the one that was recommended in the end.

It was. We called it very simply 'the retail price index'. Actually, in GKN we weren't trying to measure asset values; we were trying to measure the depreciation of the currency. That was all. We were really stuck with that very simple concept. I know it's easy to say, and damn hard to follow it through, but we thought that is what mattered. You wouldn't put marks and francs and pounds in one line and add them up and say: 'that's the

profit and loss account'. You'd convert the marks into pounds and the franks into pounds. We started from that simple content and never left hold of that.

Will Baxter - Professor W. T. Baxter - had been arguing this; he presented a paper in Manchester in 1949.

In 1949, did he? Yes.

What's interesting is that he was arguing for the index to be based upon the start of the year prices instead of the end of the year prices, which is a concept quite unfamiliar to us now.

Yes. I can see the point. We were arguing, I think, because inflation was so small there wasn't a big difference. You know, when you get 25% it is an important matter. We just took the simple rule that [we sued for] our conversion of our foreign exchange assets and liabilities; so we didn't even take the average rate, we took the rate at the end of year. But I quite agree that there's quite a theoretical argument for using the average, or perhaps as you say for particular stock that was in use at the beginning of the year.

Did you have any submissions from America on this subject?

Ted Parker did, yes. There was a marvellous publication which I read and I had that circulated to all members. It was very good.

From the American Institute?

Yes. I forget now its name - it was a long time ago - but they did it the American way, very exhaustively. They gave a number of options didn't they? And there was one in particular that was very close to us.

That was published in 1963, I think, *Accounting Research Study Number 6*?

Oh, we were in the middle of our deliberations when this came out, so my committee must have been about 1962 to 1964.

I'm not quite sure which document it would have been.

Oh it was huge, and it was published with a white hard back and it literally was about that [indicating four or five inches] thick: it took an awful lot of reading.

[Reading] I see that the actual index we recommended was the wholesale price index, and that is what Stafford helped us over. I've just found something here. There's a paper written about the number of different price indices. We had a lot of discussion about this and felt that we wanted to stay with our principle. We weren't going to have different indices with different assets, because it was the pound we were concerned with. I'm sorry I can't find the reference here to the American paper, but we thought a lot of that and we used it a great deal. In fact, we used it as a check-up on our own ideas. I know it came out when we'd got pretty well agreed. And so I circulated it and said after reading this you may feel we should reconsider some of our conclusions, but we didn't. We thought it confirmed very much what we'd said. It was interesting.

What interests me very much about this is the fact that this committee was set up in the early 1960s, when the rate of inflation was really pretty low.

Yes it was.

I'd always worked on the assumption that people got excited about inflation when the inflation rate went up.

Well, I will quote myself to you: 'Inflation is both age-old and world-wide. The economic history of mankind has care for the monetary aspect before the history of inflation. Reference to prices is told in the records of the history of many dead peoples. Of course, in our modern civilisation we have a potent and universally recognised factor out of all of us'. 19th March 1954. 'World Wars and the growth of population probably constitute the two greatest causes of inflation. G.O. May in an article in *The Accountant* on the 18th of October 1952 produces the most interesting chart of the price of gold in Great Britain over seven centuries up to the present day'.

Did you come across G. O. May? Did you meet him?

Yes, I did.

He came over [from the US] in the early 1950s, didn't he?

That's right; that's when I met him yes. He gave a talk at one of the Oxford summer courses, being a partner in PW [Price Waterhouse]. He was the 'Grand Old Man', there is no question, I should have thought, with Lowes Dickinson. I would put him very high on the list, wouldn't you?

Oh yes, certainly so. Particularly in moulding relations between the American profession and the senior academics.

Yes, he was terribly good on that. I know some people threw cold water on his technical side, if you like.

Well, he was very keen on current purchasing power, wasn't he?

Yes, you're quite right. On our committee we tried to find out everything we could about thought. I'm sure I'm right in saying that the American

publication you referred to quoted G. O. May a lot. He may have given evidence to them or something. That's right - I'd forgotten that.

There was also the *Report of the Study Group on Business Income*. Now George May was very involved with that, and there were a group of people who got together - a whole list of people who got together - to look at the question of accounting under conditions of inflation. The committee was set up in 1947 and reported in 1952. It wasn't unanimous at the end of the day, but there was strong support for current purchasing power there, and George May drafted their report.

I remember that now, yes. Well, I've quoted from what the four - the Association (ACCA), the Society (SIAA), the Scottish Institute and our own Institute - said in 1954 about it.

That will be well worth reading.

You might find that interesting. It's very brief; I'm afraid there's not much meat in it. I think we at GKN were one of the companies that recognised the importance of this problem even though inflation was at a comparatively small amount, rather earlier than some others.

Well, in 1949 there was quite a burst of inflation - in 1948 and 1949.

Yes, that's right; and then it died down again.

The dizzy heights of 7½ and 9%!

Yes. We thought it would never go to double figures!

Yes, going back to rather the same period - it's something of a detour - were you involved at all with The 1949 Group, or with the lunch club which Basil Smallpeice set up?

No: not being a Londoner, I wasn't. I knew Basil very well. We sat next to each other on the [ICAEW] Council for years. I knew him in his days when he was at Doulton's. And I went over to see him once or twice. He and his colleague Ken Bevan did a good job at Doulton's. I went and studied their accounting system. Bevan went off to an airline ...

BOAC?

BOAC, that's right - as it was in those days. And of course Basil followed him [out of Doulton's]. I thought Basil had a very hard deal but that's another story. I know about it. I think Eric Hay Davison was a key member of it.

Yes, he was.

He'll tell you a lot about that which I can't. We were rather taken with it, and I think one was started here in Birmingham. I went to it a few times but I was so busy I really couldn't give any more time.

It would have been a little earlier but you weren't involved at all with the Accounting Research Association?

No.

Again, that was meeting in London.

No. Being rather busy here, I had to trim my sails according to that. I said: 'I'd love to get involved in research but I just haven't got the time. I've got to stay with my feet on the ground'. And I could only join in things - I meant this quite straightforwardly talking to my chairman - I said: 'I can only take part in things which will feed back into GKN'. That is my important principle, so I didn't get involved.

I was chairman of the Non-Practising Members' Committee, when it was set up. That was quite interesting. We had to deal with ethics. I tried to induce them to get out a booklet on ethics. I was on the Practising Committee. But a lot of them said: 'well, there's only one rule - you resign if you don't agree with the ethics of the past' [laugh]. You know, it was rather a subject on its own.

Yes, now that's an interesting line. Basil Smallpeice was involved in trying to persuade the Institute to recognise people not in practice, wasn't he?

Yes. I was working with him on it.

I see you were involved earlier?

It was one of the first subjects that I brought up at my Non-Practising Committee. A chap called Joe Latham - I don't know if you know of him?

From GEC?

Yes; he's a director of Thorn's now. When Weinstock took over AEI, Joe stayed for a time and then got fed up and he left and old Jules Thorn took him onto the Thorn board. He was a splendid chap; he did a lot of work for the Institute actually.

But there were several of us who felt that when the Institute was working very hard on ethics for the practising accountants, we said: 'well, no - it is us chaps outside; we surely would like to have some support from our own Institute. We're very lonely at times'.

I've never been up against it myself, but one or two of my accounting friends in GKN used to come and talk to me on the side about some of the problems they were up against. I wouldn't like to say there were

dishonest managers, but people who were cutting the corners pretty fine. I couldn't take it up officially, but I had to give them advice about it, and I had to say: 'well stick it out to the point, and in the end we'll back you up and see you don't get sacked'. It was that kind of thing.

And so the advice we worked out on the Non-Practising Committee was go to other chartered accountants, or go to the auditors, provided your conscience is clear - if you are not being disloyal to your ultimate employer if it was an individual who was heading for fraud - well, not fraud, of course: I mean not criminal fraud. It was those kinds of pressure. Anyway, it's a story on its own. But we did feel the Institute had missed out on that aspect, and that if we were to be treated as equal - you know, we were made Fellows and all that kind of thing - the Institute ought to do something to help us on a collective basis. The practical point that always came back was: 'well, we can't do anything. You are employed, and in the last resort you've got to chuck the job up'.

You were chairman of the Non-Practising Members Committee?

Yes, I was the first chairman. They decided to set it up, and I happened, I suppose, to be the senior industrial accountant on the Council - about the fourth industrial accountant, I think, to go on the Council. I think [P. M.] Rees and de Paula were the first; I think I was the third, actually. I think I was the next after them yes.

And this would have been 1945?

Oh no, much later. I didn't go on the Council until the mid 1950s. I was there at its formation. I don't know whether it still exists even, but it was an attempt. There was a lot of belly aching at that time that the non-practising accounts weren't given enough weight in the Institute. There were neither enough members on the Council, nor were the subjects which the Council considered of much interest to the non-practising members.

They were complaining that they didn't come to the summer courses in sufficient numbers, and so some of us said: 'yes, if you'll produce subjects that they're interested in, of course they'll come; and if you produce reports'. So that was how it developed.

Joe Latham, I think, was my deputy chairman when I was chairman of the Non-Practising Committee. You might ask him; I'm not sure he didn't take over the job, I can't be sure - but he was certainly a tower of strength. I don't think Stanley [Dixon] was on it; he only came on a bit later.

Yes. What about the pressure during the late 1940's? The Millard Tucker Committee on the taxation of profits and income, and then the Royal Commission [on Taxation]? There was considerable pressure from the FBI and the British Employers Federation to depart from historical costs for tax purposes, as well as for other purposes. Were you involved at all with the FBI or the BEF in those days?

No, I wasn't. I took the line that taxation was not my field. I was interested in trying to get true profits in accounting, and the experts had got to take that through in terms of tax. I'm sure that the Institute of course made representations. But I was never personally involved in it. I kept right away from taxation. Bill [Sir William] Carrington was. He was in those days looked upon as our leading tax expert, before John Talbut. My son was articled to Bill.

Oh, was he?

I was sad when he died: Bill Carrington - I didn't know him so well. No, my son was articled to Bill Lawson of Binder Hamlyns - but he wasn't quite such a tax expert. Bill Carrington had a suitable manner He could be very impressive, Bill Carrington [laugh] - but he knew his stuff.

You referred earlier on to an interest in computers in the early 1950s and that's interesting because ...

I've just found a paper if you're interested in consolidations: [reading] 'Behind the scenes on Consolidating Accounts' 1950. I spoke to the final examinations candidates of the Institute: 'You, gentlemen, have reached the stage of your studies when you are saturated with companies acts, stupefied with text books and clogged with correspondence courses. I have here a copy of GKN's last published accounts at that time - a balance sheet at March 1946, printed on a single sheet of paper. Most of these accounts embody most of the recommendations of the Cohen Committee [on Company Law Revision] in June 1945'. And - oh Lord - we gave evidence to

To the Jenkins Committee?

The Jenkins Committee. Yes, that's right.

[Continuing to read his talk to ICAEW examination students]: 'In February 1944, the Council of the Institute had formally recommended as best practice the presentation of consolidated accounts. Mr [Thomas] Robson in his book on consolidated accounts brought out three important landmarks and developments in this country: (1) In February 1939, the London Stock Exchange announces in future permission to deal in the shares of a holding company will only be given normally where directors undertook to present consolidated accounts'. And, of course, the war stopped that. In June 1945, the Cohen Committee had recommended their publication to be a statutory obligation, and that's what really sparked it all off.

It was a remarkable thing to take place during the war.

It was, wasn't it: yes.

It was set up during the war, and they did all this work.

[Reading again]: ‘Our overall objective at GKN is to present a set of group accounts, and I cannot do better than to quote Section 152 of the Companies Act 1948 which would ‘give a true and fair view of the state of affairs and profit and loss account of the company in which it is dealt with as a whole’. You might be interested in that because I think there is a bit of history in it.

And you asked about

Computers: that’s what I was talking about.

Yes. I thought I’d written a paper on that. Yes, I gave a lecture to the Bromsgrove College for Further Education in 1954 on ‘Mechanised Accounting: present trends and future possibilities’.

The Institute had a working party on mechanised accounts at about that time, didn’t it?

Yes, it did. I wasn’t on that. This was the December before; I’m sure I wasn’t on that committee. I remember when it came through: I was obviously on the Council, you know, and we had to consider the paper. I think that I got GKN to have the first computer in the Midlands, an old ‘HEC 4’. We had both Powers and Hollerith, and they were into computers, and I spent a lot of time at Joe Lyons on their Leo in the early days.

You used a computer here quite early.

Yes, down the road at the screw works. I said: ‘we’ve got to start sometime - we shall make lots and lots of mistakes’. We did, of course.

This was not primarily for accounting purposes, was it?

Oh, yes. We started with the easy things; we did wages analysis and that sort of thing. And I put some of the points in there [the Bromsgrove paper]. They should work up eventually to being some aid to management - production control and so on. But we decided we must start really carrying through the mechanisation of the payroll to analysis of coins required [laugh] - simple things. It took us years. I think we did our sales ledgers and all those kind of things before moving forward to production control, stock control and so on. But you might be interested in that some time.

It certainly had an enormous impact on the profession and on ideas, and upon what's feasible and what's not feasible.

Yes. The last talk I ever gave was to the Institute of Production Engineers. They asked me to give a talk in 1972 or 1973. 'Accountant: Overhead Burden or Benefit?' That's right. I was talking on the basis that both ought to know what could be done by the computer. But of course the thing is moving so fast, I don't think I can keep up to date. We used them a lot at GKN.

[Reading] That is my favourite subject: 'Production of Accounting Data for Management'. I was always terribly keen on management accounting and what the accountant could do, and I gave the same lecture for about ten years running. They always say you never get any new ideas after [the age of] 26, and I think that's probably about right [laugh] You bring them up to date.

I should think the ideas one has at 26 need a great deal of refining.

Well, I hope I was able to refine them - but I think if I read some of those again [indicating the file of papers], I would say, 'oh well'

When you referred earlier on to H. A. Simpson and his cost accounting book of 1933, you referred to United Steel. Now, that was the UK firm - not US Steel, was it?

Yes. United Steel. Does the name Hatry mean anything to you?

Yes.

Well, the famous Hatry had a lot going for him, but he hadn't got enough money. He amalgamated Steel, Peach and Tozer, of Workington - you know, all accountants come to the north, as I did in those days; I am really a Yorkshireman, too - and he put them together as United Steel Company, with headquarters in Sheffield. And of course they were nationalised. H. A. Simpson was the chief accountant, and a pioneer. He was anti-machines, and he used the Paramount punched card - you know, with holes around the side. I think he made [the reputation of] Paramount.

Punched card equipment tended to be rather under-rated; people went in for computers quite often, ten or 15 years ago, when a good punched card system would have worked much more economically.

When I came to GKN in 1935, they'd got quite an advanced Hollerith system down the road. It was quite a long time ago, and I'd never come across it before really in practice. I had responsibility for it, and I developed it. I had an awfully good chap in charge, and together we developed it and we took an enormous lot on in fact. So it wasn't such a big step for them across to computers; that was important. Oh, I went mad about coding. I think I had everything coded to the fifth dimension. But after all - you have, to don't you? Nowadays it is not so negative, but in those days it was punched cards, and everything had to be reduced. I coded everything I saw, I think [laugh].

But you are quite right: with punched cards, a lot could be done as they speeded up the machines and as they improved the print-outs and that sort of thing. We had punched cards for a good many companies in GKN. We didn't have a vast one. Nowadays you get a vast computer. In those days there was a limit, of course. You had a punched card set up in each office. I mean, we had Powers, and we had Hollerith. We would work on the basis that there are some applications for which one was better than the other.

I was going to ask you a minute or two ago about your relations with the financial institutions and the Stock Market. Did you have anything much to do with that, or did you tend to let the financial analysts and people come to you and ask what they wanted?

I think that I personally, when I was financial director, was very much governed by my predecessor, Archie Gadsby, who had grave suspicions of the city [laugh] and all that it stood for. He was a bloody good accountant, and a jolly good financial chap, too. And so for many years at GKN I had a chairman, Kenneth Peacock, who was a wonderful man; anybody who knew Ken knew he was a marvellous chap - a very fine brain, a photographic memory, that sort of thing, but personally very sort of shy and retiring. He was the last person to push himself as chairman of GKN, although behind the scenes he was a power. And that philosophy at the top governed the company. So GKN for many years hid its light under a bushel, and my broker friends were always saying: 'Why don't you come out in the open more about GKN? TI have done it - what about GKN?' And I said: 'Well, GKN's a much better company than TI' - you know: that sort of thing.

So for many years we had a sort of inhibition about it. And then - let's see, we got George Irskine on the board, from Morgan Grenfell, and I remember somebody quite outside GKN said to me one day: 'Of course, GKN is very lucky: they've got the best financial man in the city of London'.

George was absolutely splendid - a first class man, and he rather persuaded us that we ought to do more. If we wanted to raise money in the City, we'd got to be better known. We'd be on a better [price earnings] ratio, you know; we'd be better able to get away with things than if we were only known as 'that little engineering company down in the Midlands'.

By that time, we were becoming international, and at any rate he did persuade us that we ought to make ourselves better known. We had always rather prided ourselves on our accounts, actually. We did win *The Accountant* award: you can see the sconces as you go out of here [outside his office]. We then had to 'sell' the company, and at that point in time I was invited to give a talk to the investment analysts about our accounts, and particularly about our depreciation policy. I found that very interesting, with the questions. And then the chairman - I forget who it was - and two or three of them, they took me out to dinner afterwards and really quizzed me. I found that such a good experience, and I came back fully convinced that we'd got to do more to sell the company. So they did start doing that.

From what sort of period? The mid-1960's?

Oh yes, definitely. Kenneth Peacock gave up the chair, and Ray Brooks took it on in 1965. Ray brought a different attitude altogether. He believed in personal publicity, not for himself but because he said the chairman of GKN is a national figure, as head of the biggest engineering company in England. So he encouraged us to sell the company much more. We did all kinds of things. I expect you know the GKN logo now?

Yes, rather!

Well, he decided to employ a firm of consultants on this, and I was working very closely with him at the time. We asked them to design a logo, and they came out with the 'GKN' [logo]. We took it to the board, and Ray

felt very strongly about it; he threw his weight about really, very rightly, and we insisted and it was adopted all over the world by all the GKN companies. I'd been very taken with ICI, frankly, because I think they started this, and everyone is doing it now - British Rail and so on.

We had a press conference, and that I think it was a bit of a turning point. We said that you would recognise GKN whenever you saw any GKN companies. We learnt a lot from this consultant. He said 'you must never alter the relative dimensions of the letters; you can have it that small, or you can have it that big - but it must always be exactly the same, blown up'. It was a very good principle. So that you see that shape and you recognise it.

So I would say that it wasn't till the mid 1960s that we really started bothering about - we were too proud, I suppose - what other people thought about us, and it was done for financial reasons really. I had a shattering experience in 1960 - it would have been about 1961 or 1962. I went to a dinner which the Hollerith people gave in Birmingham for their largest clients, and I walked downstairs of the Old Queen's Hotel afterwards with a chap called Gracy, Jim Gracy, who was then managing director of the huge works at Witton and on their PC [parent company] board. And I said something to him about: 'Jim, I hear you and Sankey's are having a bit of an argument about something - is there anything I can do to help?' And he stopped and said: 'is Sankey's part of GKN?' I reported this back to my chairman: Jim Gracy was a national figure. He was the great advocate of something quite different - he was the great advocate of trying to arrive at a national works study approach to wages, in other words grading. He did a tremendous lot of work on that: an interesting man. Then I went back to my boss and I told him the story and said: 'ought we not do something about it? He is one of our biggest customers, and he does not know that Sankey's is part of GKN!'.

And from that day I think something important happened. They have changed all the names so it is now 'GKN Sankey' and so on. From that day, I think I could say, we really started to plug GKN as such. It wasn't before; it was all individual companies.

What do you think about the way that accounting standards are going now? Does GKN make recommendations to the ASC on exposure drafts [of standards]?

Yes. We have just been commenting on the new Standard Number 9 [Stocks and Work in Progress]. I take the view that salaries are a time cost. Thus, the 1979 12 months' salaries should be written off in 1979. Salaries is part of the cost of sales in 1979, whether those salaries were for production pre-1979, or in 1979, or partly both. I've stuck with that concept. But I lost out on that.

I must say I found the Statement of Standard Accounting Practice odd on this, requiring the inclusion of overhead costs.

I think I would say that that was almost entirely due to the insistence of the Inland Revenue. They told John Paris this; I can tell you this privately because it came out. He admitted that he went to see the Revenue, and they said they could not budge on this. They really twisted our arms, and they said: 'well, you can't have the Institute coming out with one recommendation [writing off salary overheads] when it has got to be added back for tax purposes'. Frankly, I blew up at that. Are we going to be dictated to by the Inland Revenue? But I do feel that the theoretical arguments are to treat them as an expense.

It was a very nice little book that Stanley Dixon wrote, wasn't it, in 1966?

Yes.

The Case for Marginal Costing.

The other debate I enjoyed so much - I put these two points down to mention to you - is the one on post balance sheet events [later addressed in SSAP 17]. We had a lot of fun about that.

What sort of period are we talking about, because that is of current interest?

Oh, that is quite an old one.

Really! Oh, that's interesting.

Yes, it was way back in the early 1950s, I would say. If you look up the literature, there was a 'Recommendation' about that. I remember that I was working with Campbell on it; he was chairman of their committee. I learnt an awful lot and I've written it down. I don't think it came out in the booklet.

[Reading his notes]: 'Isn't there a distinction between post balance sheet, new knowledge but of an event which occurred before the balance sheet date, and a true post balance sheet event, which is a new happening - which should be looked on as something to record.' I don't know whether we ever brought that principle out, but it seems to be really what needs to be addressed.

It is being discussed, now we have got the Exposure Draft [of what was to become SSAP 17].

It has probably been improved on since we first looked at it.

Now we've got the exposure draft. In fact, I think it is now at the stage where we have a draft Standard, but I don't think it is out as a Standard.

It would be interesting if that view has changed. But I must say, it is rather a determining one. There was a distinction. They talk happily about 'post balance sheet events', but when you analyse it, what do you mean by 'the event'? The event has happened: you've created a debt, shall we say. At the end of the year, it looks perfectly good, but in March he [the debtor] goes bankrupt. And then, I think, you are entitled to take that into account because in effect it was knowledge that that was a bad debt at the end of the year. But if it is something that happened in 1980, so it was an event in 1980, then it shouldn't be reflected in the 1979 accounts. Obviously, the board may take into regard in deciding what to recommend as dividend, but that isn't anything to do with the accounting.

Well now, to my shame I ought to remember what the exposure draft and then the draft standard says on this. I'm involved on the Accounting Standards Sub-Committee at the Association [the ACCA]. You know, the six CCAB bodies look at these things, and comment on the drafts. And I remember there was a distinction which we discussed at some time - I think it's this distinction, but I'm not certain that it is this distinction.

I wondered. I just put it down because that was the view we came to. I don't think our booklet quite brought that out, but after we thought about it I think we internally did that - but sometimes we didn't. We were all so dominated by Mr [F. M.] Wilkinson [Joint secretary of the ICAEW, 1960-64].

Yes - he sounds quite a martinet.

Oh, he was. He was jolly good though; he was the best drafter. But he sometimes drafted Wilkinson's ideas first [laugh].

Really! Oh I've heard another criticism which was - well, it is not an unkind one - that he was so thorough, and things had to go through him, that it tended to build up a bottle neck.

Oh yes, that was right. He was a perfectionist. He drove himself into the ground, really. But a splendid chap - he really was the most magnificent drafter of things. When you've read something written by Wilkinson, there is no mistaking the meaning. And I think the avoidance of ambiguity is the hallmark of a good secretary.

He was in office after the merger of the ICAEW with the Society of Incorporated Accountants and Auditors, which brought in people like Bertram Nelson.

He was a key man in research, yes.

There was someone who was a member of the Society who was very hesitant about the merger, on the grounds that it would harm the research activity. Oh, I know - it was Eric [Hay] Davison: he voted against it. He was not a member of the Society, but he felt that it would have the effect of blunting the research.

Rather stultifying the research, yes.

Yes, which is in fact just what did happen.

For a time ...

For a while, that's right.

Yes. I think like any marriage, you've got to lie down together for a time [laugh]. I felt strongly that it was silly to go our separate ways, really.

And what about the bigger integration in 1969?

One had more doubts about that, on the grounds simply that it was important that the basic training and disciplines and all the things that make a good professional were not overlooked. I never felt, with the Society, that there was any dilution. With the others, one had some doubts in some respects, and that was the trouble I think.

The scope was going to be broadened very much indeed in those proposals. It was going to be included in the British Accounting Association or whatever it was, the International Accountants - and all sorts of people.

Yes. I think in my younger and less tolerant days, perhaps, I'd rather stuck out against that, because one or two chaps came in for jobs, and when I analysed what their credentials were they weren't as good. I know letters after the name doesn't matter so much as what a chap knows and does. Er, shall we

Well, thank you! Let me just say thank you very, very much indeed for all your help and time this morning.

I must admit I have enjoyed it: it's rather fun recalling some of these.



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