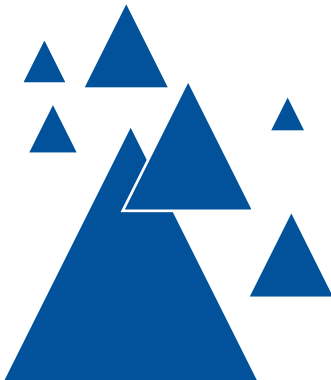




Introduction to interviews by Michael Mumford

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'Their own accounts: Views of prominent
20th century accountants'



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INTRODUCTION

'Times are changing and accounting conventions will change with them. Today, study of the historical development of accounting conventions and of the causes which have brought about change may be more useful than a description of present practice.'

George O. May (1943, p9)

Preliminary comments

In the late 1970s, whilst I was head of the Department of Accounting and Finance at Lancaster University, one of the major international accountancy firms came to recruit students. I was invited to dinner with the team, headed by a Lancaster graduate in languages, who was partner in charge of a regional office. Over dinner, he and I discussed some new requirements for nationalised industries to report replacement costs. After a while, the youngest member of the group commented that she was a graduate in languages who had qualified as a chartered accountant three or four years earlier, and this was the first time she had ever heard a discussion of accounting theory. At this point, the two other men present said they were both science graduates, qualified for five or six years - and neither of them, either, had previously heard a discussion of accounting theory. I found it sad and rather shocking that three very bright accountants, in one of the top firms, knew accounting only as a purely technical activity. They seemingly lacked any theoretical basis or understanding of its social and economic consequences.

Thirty years later the situation has not much improved. Indeed, in some respects matters have got worse. The need to memorise the details of complex accounting standards increasingly distances accounting trainees

from a conceptual grasp of what financial reports are supposed to mean or accomplish. The UK Accounting Standards Board today operates with a form of conceptual statement that would have been unrecognisable at the time of the interviews. It also typifies the accounting profession, particularly in the United Kingdom, as being 'unlearned' to an extent that practitioners of law or medicine, for example, would simply not comprehend.

Furthermore, accountants lack a sense of the historical context in which they work. They rarely ask where accountancy rules originated, or how, or why. Their trainers discourage this in any case in the context of professional exams. What matters to them is the pass rate!

It is the function of this monograph not to defend accountancy, but to record some of its history. The book records interviews with four men who were senior and highly regarded in the profession. Eight more interviews, also all with men, are being published at the same time, in electronic form, accessible over the internet from the Institute of Chartered Accountants of Scotland - www.icas.org.uk/research

At many points, the twelve men discuss theoretical issues, often with insight and conviction - yet their views often differ from one another. It would not be easy to predict the points on which they would all have agreed in discussion around a table. The interviews are instructive about the way that the profession - in particular, the Institute of Chartered Accountants in England and Wales (ICAEW), to which 11 of the 12 men belonged - came to develop in the middle decades of the 20th century.

Moreover, despite the fact that the interviews were conducted nearly thirty years ago, many of the observations are still relevant today. For example, Kenneth Wright talks about the meticulous planning that preceded the merger in 1957 between the ICAEW and the Society of Incorporated Accountants and Auditors (SIAA) - the last successful merger between accountancy bodies in the UK - at a time when he chaired the London Society of Chartered Accountants. There have been several notable, and costly, failures since then to merge, five involving the ICAEW, the latest in 2005 (see *Accountancy*, October and November 2005). Shackleton and Walker (1998 and 2001) present comprehensive

analyses of the unsuccessful mergers attempts between 1957 and 1970, showing the difficult issues involved, particularly in multi-party mergers. The merger of the SIAA with the three chartered institutes (of Scotland, in England and Wales, and in Ireland) was, by contrast, somewhat more straightforward. Nevertheless, the later attempts all overlooked the lessons of 1957: the small margin that often decides such votes; the detailed planning and insight required beforehand; the diplomacy involved; and the need for an acute sense of history.

My programme of interviews was set up in 1978, when I began to contact and talk to some eminent members of the profession to ask them about their experiences. My late friend and colleague, Eddie Stamp, through the International Centre for Research in Accounting at Lancaster University Management School, paid for the costs and I recorded the interviews with a tape recorder. Getting tapes transcribed in the 1980s proved a nightmare. The typewritten pages usually needed to be re-typed more than once to achieve a readable version, and this was taking many, many hours. I, therefore, put the project away, uncompleted.

In December 2001, as we walked around Tarn Howes in the English Lake District, I told Professor Steve Zeff about the interviews, and he encouraged me to resume the task and to approach The Institute of Chartered Accountants of Scotland, which has a reputation for supporting and publishing historical research (for example, Walker, 2005), for a grant to pay for the transcription of these interviews from thirty years ago. I then selected twelve of the interviews to edit for publication. Cheryl Scott soon had the drafts word-processed on disk, and I set about editing the spoken words into readable form, removing some duplication and, very occasionally, passages 'off the record', and in places improving grammar or syntax that would not be noticed in speech but would jar in print.

I decided not to insert footnotes in the interviews (for example, to explain technical references that arose to UK Statements of Standards Accounting Practice (SSAPs) currently in force). Some of the things said in the interviews are, quite frankly, wrong, and I gave a lot of thought as to whether I should point these out in footnotes. I decided against, for two reasons: I could not take on the role of vouching every statement, and,

moreover, putting in footnotes would severely break up the flow of the dialogue. However, I use brackets in the interview records to add some selected comments where I think they may help the reader. Many of the facts are in any case quite easy to check independently, such as the dates of legal cases and the full citation of SSAPs.

The interviews are published now in the belief that they give some picture of the profession in the mid-20th century - albeit, a rather partial view, from the perspective of an unusually successful small group of people, most of whom knew the others as members of the ICAEW Council and most of whom had served on district societies first.

Obtaining permission to publish the texts, thirty years after the recordings were made, was a challenge, but I was able to meet the ethical guidelines of the Oral History Society. I was glad to be able to talk on the telephone to four of the people interviewed, and they read and commented in writing on the transcriptions. Sadly, one of them, Will Baxter, has since died. In six other cases, sons or daughters read and approved the drafts. I am very grateful to all the people who gave their approval to the interview texts. In two cases - Basil Smallpeice and Jack Clayton - unfortunately I could not trace any family members.

Before commenting on the people interviewed individually, I will briefly set out the broad historical context of their work and explain some of the technical problems in accounting that gave difficulties to them and their colleagues.

A historical context: accounting for large-scale enterprises

The 1844 Joint Stock Companies Act in Britain was not the earliest company legislation, but it was particularly important because it enabled companies to be formed, by a simple process of registration, more cheaply and easily than before, and registered company numbers rose rapidly. Another act, in 1855, permitted companies to be registered with limited liability, to protect the members from being personally liable for the debts of the company, although this increased the risks for the creditors.

Companies were obliged to keep accounts and report to members yearly on a balance sheet that had been checked by auditors drawn from amongst them, to be put on record at the Companies Registry.

It was, however, the growth of companies in America, after the end of the Civil War in 1865, which led to unprecedented demands for capital, and also to the greatest new challenges in accounting. The capital for all this investment came largely from Europe, from investors who could neither observe nor dominate the managers who had day-to-day control of their resources. Share capital came to be divided amongst large numbers of individual investors, living far away and relying on poor communications, with little chance of getting together to exert effective control over the directors. The investment risks were great, but the prospective returns were so high that the risks were worth taking.

Thus developed the 'divorce between ownership and control', analysed in detail by Berle and Means (1932, revised edition 1968) which later became the context for the analysis of 'agency theory'. In fact, by 1968, in Britain and well as in the USA, share ownership was already coming to be concentrated in fewer hands as institutional investors (pensions and insurance funds, in particular) acquired legal ownership of shares on behalf of the policy-holders whom they represented. The institutions remained reluctant, however, to exploit their market power over the corporations they were increasingly coming to own. These people were portfolio managers, not captains of industry - they were not able to tell the directors of a steel mill how to produce steel, or retail stores how to run their businesses.

The modern, large-scale, managerially controlled corporation, described by Chandler (1977 and 1990), tended to still be an American phenomenon at that time. Back in Great Britain, large-scale businesses were also growing in the 19th century, but on a smaller scale and often with simpler organisational structures. Companies in Britain, as in the rest of Europe, were still typically run by the proprietor's family, whereas American companies were increasingly managed by professional salaried managers, often trained in post-graduate university business schools, a trend that exacerbated the problem described by agency theory. American managers were very effective in growing and innovating the businesses

they controlled, devising new techniques of strategy, mass production, marketing and standard costing that were not brought to Britain until the 1930s. It is no surprise that Basil Smallpeice sought to join an American company as soon as he moved into industry, or that Bruce Sutherland, Will Baxter, Godfrey Judd and Lawrence Robson all went there for extended visits early in their careers.

Within mainland Europe, with nearly all companies still controlled by proprietors and their family members, any need for additional external capital was usually met by banks, which took partial ownership of share capital as a means of participating in the direction and rewards of the business. In Britain, by contrast, the banks altered their investment patterns drastically after the collapse of the City of Glasgow Bank in 1878. British bankers took to lending money, mainly on short term overdrafts, rather than getting involved in holding shares, which implied a responsibility for running the companies in which they were invested. After 1880, in the UK as in the US, companies started to raise new external capital from the stock exchanges, rather than from banks. Financial reporting took on greater significance in the context of these growing securities markets.

As noted above, difficult new problems arose in accounting for these new large enterprises. The long-established techniques of double-entry bookkeeping had to be adapted to deal with them, and controversies often arose. Because of the accidents of history, many accounting developments took place in the US earlier than they did in the UK. Moreover, accounting became established as a university subject much more widely in the US, one result being a much greater volume and breadth of published writings on the subject. For this reason, in my interviews, I often asked about American influences on the respondent's thinking, and sought out who had been opinion leaders in their fields. I revisited controversial matters of accounting at many points, and these are explained in the next section for the benefit of readers who may not be familiar with them.

Key problem areas in accounting

Income

The purpose of a business entity is to supply goods or services from one period to the next. If the aim of the entity is to make a profit, its managers are judged mainly on the profits they make, subject to the current laws and conventions that constrain the way the firm deals with its various stakeholders such as employees, suppliers and customers.

There is an ambiguity attaching to the name 'income': does it refer to the level of sales revenue over the year, out of which all the costs of producing those sales must be met? Or does it refer only to the net profit, after meeting all the costs? Even the most basic concepts in accounting, as in economics, prove subtle and elusive when they are examined closely. Moreover, disagreements over the definition of assets, income, costs and profits can lead to controversy and misunderstandings. Some of the questions raised in the twelve interviews concern alternative ways to define and calculate profits, although always in the context of entities intended to make profits.

Conceptually, it is possible to think of income as being the difference between a set of assets at the start of the period and the corresponding set at the end. This is, indeed, how the UK's Accounting Standards Board tried to conceptualise income towards the end of the 20th century, some years after the interviews. There are serious difficulties with this. It is very hard to capture a comprehensive set of the assets of a firm (minus all its liabilities) at a particular date. Many assets are intangible, hard to value, and imprecisely defined. For example, the human skills and knowledge embodied in the workforce may represent a major resource - indeed, by far the most important in a professional firm - but firms do not own their staff. Moreover, assets are often written off in the accounts before they cease to be used, and assets may be constructed by the firm itself, rather than bought, so that their costs or values are not recorded at any exact figure.

Traditionally, accounting has proceeded by quite a different method. The assets and liabilities recorded in the books are those bought through

historical transactions, and these provide the basis for an opening list of net assets, alongside the sources of capital that financed their acquisition, in the opening balance sheet. The assets do not purport to be a complete set, or to represent current values. The opening balance sheet may simply be seen as the closing balance sheet at the end of the preceding period. Then the income for the following year is calculated by totalling all the sales invoiced (both cash and credit sales) in the period, and then deducting the estimated costs of obtaining those sales, a process known as ‘income recognition and cost matching’.

Note that the driver of this process is income recognition, determined by what has been invoiced to customers in the period. Invoices are written notices to customers to tell them that their account has been charged with the amount shown, which will be treated as a debt legally enforceable in the courts unless the customer challenges the facts as shown. The invoice date is not necessarily the date on which legal title to goods transfers. Invoices are usually sent when goods are dispatched, as a matter of good business practice, or when services have been rendered.

Estimating the cost of sales may present problems. Some costs are fairly clear-cut, such as the actual purchase price paid for each motor car sold by a car dealer. Others are less exact, mainly because there is no way to allocate joint costs between sales or time periods except on an arbitrary basis. Assume a lorry is bought for, say, £30,000 and used for five years. It is not evident how much of the £30,000 is ‘used up’ in any particular year. It is unreasonable to argue that the entire cost relates to the first year and so should be charged against sales revenues for that one year. The truck wears out, but not in any measurable way. It may perhaps be fair, in some sense, to assume that each year uses up £6,000 ‘worth’ of the asset. It is safer to say that the whole £30,000 is used up over the whole 5 year period, but even this raises problems. In the earlier years of its life, who can predict how long the lorry is going to last, unless this is a policy choice made by the firm, regardless of the state of the vehicle in later years? It could be used for six or seven years. Furthermore, the actual cost of £30,000 might have been a stroke of luck, not representative of lorry costs generally. What if a replacement for the truck at the end of five years is

expected to cost £50,000 - should the earlier years be charged with more than £6,000, in the expectation that it costs £10,000 per annum on average to be able to buy another truck five years later, to keep operations going? The problem of how to deal with changing prices is considered further in the next section.

Income recognition and cost matching became, over the centuries, the conventional way to calculate income, since it incorporated all the cash and credit transactions that the firm engaged in. These must be recorded in any case, to keep track of amounts owed by, and to, the firm. Each period ends with a process of year-end adjustments, in which the firm checks whether any costs relating to this period are not already recorded in the accounts. For example, certain components might already have been used for production even though the supplier has not yet sent an invoice for goods supplied on credit. And the process of averaging the depreciation of long-lived assets, such as the £30,000 lorry discussed earlier, means adjusting figures already recorded in the accounts. All twelve of the interviewees were, of course, very familiar with this system, and accepted it - subject to reservations over the treatment of changing prices. But they were also well aware of the problems of defining, and maintaining, capital, reporting income, and deciding how much could be paid out as dividends, in accordance with the law and with business prudence.

Changing prices

Given the timing of the interviews (1979 to 1984), it is not surprising that accounting for inflation often arose as an issue. The rate of inflation was high in the 1970s (induced by a sharp rise in crude oil prices from 1971). It was during the 1970s that the most turbulent arguments arose in Britain over whether to replace or augment the well established historical cost conventions by some system of inflation accounting, based either on current purchasing power or some variant of replacement cost accounting, both of which are discussed more fully below. Lawrence Robson and Jack Clayton both took strong positions that the only real solution to the problem of accounting for inflation was for government to stop inflation.

Will Baxter supported replacement costs, and Harry Norris was notable because, however 'unlearned' the profession at the time, he wrote a most interesting and penetrating book on inflation accounting in the 1940s, working from first principles and with no university education.

To me, as one of the small number of accounting academics in UK universities in the early 1970s, inflation accounting was such a big issue that it virtually constituted the whole of 'accounting theory' at the time. I had come to favour some replacement cost solutions in the form of a mandatory supplementary statement to show how much, in the directors' judgment, would be needed as an additional charge against income to augment historical costs profits in order to maintain operating capacity intact.

During the period from 1850 to 1900 accounting rules were being developed to deal with the large numbers of companies formed under the new companies legislation. Throughout this half century prices in general were falling, which meant that income recognition using cost matching on the basis of the actual costs of inputs used (the 'historical cost' method) tended to show a relatively cautious picture of business performance. Input costs tended to fall from one period to the next, rather than rise. In the earlier example of the £30,000 truck, its replacement might cost, say, £20,000 rather than £50,000. So a system that matched replacement costs against revenues, rather than historical costs, would produce larger reported profit figures or smaller losses than the historical cost method.

By contrast, from 1900 to 1920 and from 1940 to 1950 prices rose rapidly due to large-scale international wars and the enormous diversion of industrial and commercial capacity to destructive ends. It rapidly became obvious, particularly to engineers and accountants working within large manufacturing firms, that if profits were reported on a historical cost basis, there was a serious risk that companies would be unable to maintain their operating capacity when the time came to replace major items of equipment - at least, without a need to raise fresh capital from shareholders or creditors.

Note that the converse problem did little harm. When prices fell, profits were lower under the prevailing historical cost than under an

alternative replacement cost system. Company law required that dividends to shareholders could not exceed reported profits, so excess caution in calculating profits could limit the amount that owners could withdraw. This law was intended to protect creditors in the face of limited liability, since they could only recover their debts from the company itself, and not sue shareholders. But profit retention generally results in reinvestment and hence higher future profits, so that even if the rules for defining profit were excessively cautious, they would generally benefit creditors while doing no serious harm to the shareholders.

On the other hand, once price levels generally began to rise, historical cost tended to overstate profits as compared with replacement cost methods. If the firm could not replace its £30,000 truck after 5 years, it was failing to maintain its capital. Creditors would suffer from this lack of conservatism, and so indeed might shareholders if they were deceived by reports of overstated profit figures that failed to charge adequate amounts for inputs consumed. As noted earlier, the practical problem with depreciation charges on long-lived assets is to know how much to charge for the use of such assets, year by year, when both the length of their expected future life is unpredictable and so are their eventual replacement costs. Two solutions to the problem have been suggested. One uses replacement costs and the other applies index numbers to the original historical purchase prices of assets. Both methods were being advocated during the 20th century and are summarised below.

Replacement costs

Whereas future replacement costs are usually unpredictable, the current level of an asset's replacement cost can often be ascertained by looking to market prices quoted at the end of each year. Even this might not be easy. Technical changes in the nature of assets, such as trucks, can mean that older assets are outmoded. Furthermore, current (new) buying prices rarely reflect the second hand prices of assets actually owned. Moreover, some types of asset with specific and limited uses may well not be quoted at all on second-hand markets. There was also the problem that

aggregate depreciation written off over the life of the asset would represent neither its original cost nor its ultimate replacement cost.

Other difficulties arise, too, such as the rate of technical change (assets are replaced by more efficient substitutes), as well as the difficulty of predicting asset lives (many fixed assets often continue to be used for twice the life originally estimated for them).

Two other complexities are worth noting. It is fairly obvious that rising asset prices mean that charging only the historical cost of assets against income will risk that the original assets cannot be replaced, but it is not clear how to test whether an adequate charge is being made. It is very difficult to know when some given level of operating capacity is being maintained at a constant level. What is it that needs to be observed? The crude number of assets is scarcely relevant, and their output capacity cannot be measured in any sensible way. Difficult judgements are needed before directors can say that they have charged enough against income to ensure that operating capital can be maintained intact. These issues are discussed in several of the interviews, particularly with the people who spent a career in industry. Thus, for example, Stanley Dixon was making practical use of replacement cost methods for decisions over pricing and output even though he was well aware that they needed judgement. Bill Fea, Lawrence Robson and Harry Norris all had extensive experience of the problems, although Norman Lancaster comments that fixed asset replacement was not a serious problem at Wolseley.

Deep controversy arose, also, over the question of whether monetary assets, such as cash, bank balances and debtors, needed to be maintained as well as non-monetary assets, such as inventories, machinery and goodwill. Orthodox accounting practice said that historical cost accounts gave a fair view of profits actually made in a period; if prices were rising, it would be prudent of directors to set aside some part of the reported profits to enable the firm to replace its assets. Calculating profits did not involve setting aside funds to use to replace assets, but merely charging the actual cost of the assets in use. There was no need to pre-judge whether assets would be in fact replaced at all at the end of their lives. Critics of this historical cost tradition insisted that historical cost did not give a fair view of profits.

Very similar debates over how to deal with inflation arose in Britain both in the 1940s and in the 1970s. During the 1970s, a variant of replacement cost accounting was devised that augmented historical cost charges by extra supplementary charges based on the current replacement cost of fixed assets and inventories, plus an amount to maintain the purchasing power of monetary assets. This system, known as 'Current Cost Accounting' or CCA, was complicated and it was greeted by most accountants without any great enthusiasm, although support was expressed in the interviews with Jack Clayton and also with Kenneth Wright and Harry Norris (who were both persuaded that this was better than the replacement cost method they had preferred previously). However, the many critics of historical cost accounting usually preferred some other method than current cost accounting of dealing with historical cost shortcomings.

Applying index numbers to a historical cost system

As an alternative to replacement cost accounting, some critics of the historical cost method argued that the main problem with historical cost was that the purchasing power of money itself fluctuated. The value of money rises with a fall in the general level of prices, and falls when prices on average go up. It is therefore possible to construct indices of asset prices, for the sorts of asset used by an individual firm, or within an industry category, or across the economy as a whole for all manufacturing and commercial businesses, or even for consumer prices. Such indices can be used to adjust historical cost figures so that they are all expressed, not in terms of their nominal money value, but in standardised units of the purchasing power of money.

Such a system is called a 'Current Purchasing Power' (or 'Constant Purchasing Power') method or CPP. At the end of each year, the reported accounting numbers are restated so that transactions recorded at earlier dates (when cash bought more, in an era of rising prices) are shown as re-measured by the larger number of year-end currency units needed to buy a similar amount at year-end prices. An intrinsic feature of such a system

is that depreciation charges on long-lived assets are automatically restated to end-year price levels, and so also are monetary assets and liabilities held from earlier dates. The problem of 'backlog' is addressed automatically, and there is no need for any debate that monetary assets must be taken into consideration - they are re-valued as part of the system.

Two points are worth noting. One is that current purchasing power accounting was fully analysed earlier than replacement cost accounting, which tended to be developed in a more piecemeal manner. Thus, Henry Sweeney (1936) provided a detailed explanation of current purchasing power in the 1930s. It is also significant that current purchasing power came to be supported more strongly, both in the US and in the UK by standard setters, before rival replacement cost (or current cost accounting) systems were seriously considered. One reason for this was that current purchasing power could apply the same official sets of price indices to the historical cost accounts of a wide range of companies, so avoiding a lot of difficult judgments within individual companies. It limited scope for directors to manage the results to suit their preferences.

The second point is that current purchasing power replaces money units with constant purchasing power units, in just the same way that foreign currencies have to be translated into the domestic reporting currency of a company with branches or subsidiaries in foreign countries. But current purchasing power units do not necessarily have to be used only to restate historical cost accounts; they can in principle be used to restate replacement cost accounts too, although this tends to make a complex system even more difficult.

Because current purchasing power can use a small number of official indices, the method appealed to professional bodies that stressed the importance of verifiable processes that could be monitored, for example, by the auditors. But a small number of current purchasing power indices could arguably fail to satisfy the needs of particular individual companies whose asset prices moved out line with prices more generally (as built into the weighting of any individual index). For example, oil prices tend to be a relatively small component of the annual costs of many companies - even manufacturing companies that use energy for heat or light or

transportation. But oil prices are of central importance to oil companies, a category which includes some of the largest companies in the world.

The engineers intuitively foresaw the problems of historical cost, which meant that companies might be unable to maintain their operating capacity intact, and were mainly concerned with the particular needs of their own company, not the economy in general. They knew about the replacement cost levels of the sorts of machines and materials that they used from day to day, not some abstract index published by a government department. Accountants serving the needs of major companies also identified with this problem, and tended to favour replacement cost approaches, although both Eric Hay Davison and Bill Fea used current purchasing power methods with specific indices in their companies. Davison, then at Courtaulds, gave a talk entitled 'Current Depreciation Problems of a large Industrial Undertaking' in November 1947, to one of the seminars on 'Problems in Industrial Administration', organised by Professor R. S. Edwards in the evenings at the London School of Economics. Accountants trained as auditors tended to favour current purchasing power, if they agreed that historical cost was inadequate. Eric Hay Davison discusses the issue at some length in his interview. In Mumford (1979), I analyse the UK debates over replacement cost and current purchasing power in the 1940s and 1970s.

Taxation

Governments have always raised taxes, mainly for warfare but also, since the Keynesian economic reforms of the mid-20th century, to help pursue social policies such as full employment. Levels of tax rose very sharply during the two World Wars, which were more heavily mechanised than previous conflicts. Accountants were called upon by the UK government to help in the war effort, mainly in administration such as the production of munitions and weaponry but also, just as critically, in the administration of taxation.

New taxes were imposed, partly to raise funds and also, by way of excess profits levies, to penalise profiteering from the war. The most

important source of revenue was personal income tax, and tax rates were set at levels that approached 98% for certain high levels of 'unearned' income. Accounts needed to be reliable and as fair as possible, but for tax payers there were increasing incentives to obtain the best possible tax advice. Tax policies and their implementation required a huge increase in skilled staff, particularly since many policies involved expert judgement over what constituted transactions, income, expenses and so on. Unusually, the figure of income used as the basis for tax assessments in the UK, in contrast, say, with Germany, does not have to be the figure published as income in the accounts. Accounting profits are subject to various adjustments for the tax assessment, laid down in tax law and regarded as part of private negotiations between taxpayer and the Inland Revenue. Thus, depreciation on long-lived assets is a policy matter for the directors to decide upon, but rates at which the costs of fixed assets are allowed to be deducted for tax are laid down separately in tax statutes.

Another unusual feature of British public affairs is that taxation is mainly left to accountants rather than lawyers, as is generally the case elsewhere. Thus, accountants usually prepare and submit tax returns in the UK for wealthy individuals and companies, and their professional training includes taxation. Firms of accountants in public practice often rely on taxation for a significant part of their revenues, and have specialist partners who oversee that part of the firm's work. Amongst those I interviewed, Bruce Sutherland was a tax specialist, and Kenneth Wright was very knowledgeable; however, one of the industrial accountants, Jack Clayton, played a singularly important role in UK tax administration. Personal income tax before the 1940s involved an assessment at the end of each tax year of the amount of income tax payable, which then had to be paid over in the course of the next year or two. In the 1940s, Paul Chambers at the Board of Inland Revenue set up a team to develop a system of 'pay-as-you-earn' (PAYE) taxation, so that employees would have tax deducted weekly at source by employers from their pay. Jack Clayton was sometimes given credit for devising PAYE, but in his interview it is clear that he only suggested modifications to the system that was being proposed by Paul Chambers.

The interviews reflect the specialised nature of tax in the UK because, even though all those interviewed had studied taxation for their professional examinations, most of the twelve interviewees claimed no expert knowledge of the field.

Group accounts

The techniques of accounting developed, to a large extent, in response to institutional developments. For example, 'consolidated accounts' for groups of companies developed in the US, because the need grew there first. Until 1890, it was illegal for one American company to own shares in another, but the Sherman Anti-Trust Act permitted the practice from that date, so that it became possible for one company to take control of another by buying a majority of its voting share capital.

Buying all the shares in a company gives the acquirer complete control over it, but rather than liquidating the target, as generally happened in the UK after a takeover, the new parent often kept the other in existence as a subsidiary. But merely showing the cost price of the investment in its accounts gave little idea of how significant the operating assets were that were now under the parent's control. The new technique of consolidation accounting developed to show a group's entire assets and liabilities together, as if they were those of a single legal entity.

The group company structure became commonplace in the US after 1900, making it possible for investors to build up pyramids of control with less than 100% ownership (Bonbright and Means, 1932). Preparing consolidated accounts was a brilliant new device. It seems to have been devised and installed originally by J. P. Morgan for the new giant groups that the bank was then forming, such as Federal Steel Company soon to become, in 1901, the core of the United States Steel Company, with the first balance sheet showing \$1,000 millions in assets and audited by Price Waterhouse. It should be noted that the claim, such as that by Allen and McDermott (1993), that the auditors and A. L. Dickinson specifically devised the technique seems somewhat exaggerated. Stock market investors were impressed, even though it came to be shown later that much of the

value on display in these consolidated balance sheets consisted of notional goodwill (Walker, 1978).

There were some difficult problems to resolve in the new technique of group accounts. For example, the group balance sheet aggregated all the cash, bank balances and debtors belonging to all the companies in the group, and all the external liabilities owed to creditors. But, as a matter of law, each company was a separate legal entity, regardless of who owned its share capital, so the creditors of a subsidiary company could only sue the subsidiary to recover their debts, not the group as a whole. To this extent, critics argued, group accounts were misleading. Of course, the subsidiaries would have to prepare their own separate accounts, and creditors needed to rely on those rather than the group accounts. Debts owed by one company to another in the group needed to be cancelled out, so that aggregate group indebtedness was not overstated. Inventory valuations also needed to be adjusted to remove any profits realised on sales from one company to another in the group but not realised by sale outside the group.

Moreover, where a parent owned less than 100% of a subsidiary's shares, the question arose of how to treat the minority of shares not owned by the group, say, for illustration, 10%. One possibility was for the group accounts only to bring in 90% of the subsidiary's assets and liabilities, taking the view that the other 10% belonged to the minority shareholders. This, however, was unrealistic. Either the parent controlled all the subsidiary or it did not. So the practice grew of showing 100% of the assets and liabilities in the group accounts and also, as a special form of group liability, the amounts owed to minority shareholders in the subsidiaries. This represented the capital they owned, plus their entitlement to any profits of the subsidiary not yet distributed as dividends.

Although, as explained, the technique of group accounting developed in the US, before there was any legal compulsion to do so, it was used in the UK from the 1920s, also on a voluntary basis. The 1929 UK Companies Act required group accounts to be prepared, but left such a large loophole that they were rarely prepared in practice. It was not until the 1947 Companies Act, consolidated in the 1948 Companies Act, that

group accounts were effectively made compulsory. Even then, the area has remained problematic, particularly over the criteria used to define when one company controls another. Bill Fea, in his interview, refers to the problems of consolidating the accounts of the GKN group.

Accounting standards

However, group accounts are not the only area of difficulty. Many details of accounting policy offer scope for companies and, of course, unincorporated entities such as sole trading concerns, partnerships and many charities to use different treatments for similar items. Depreciation on long-lived assets is just one such area of policy. The valuation of inventories can also present a variety of treatments; for example, a manufacturing company can decide how much of the indirect costs to include in the value of any one year's production costs. It was to achieve uniformity of treatment, and hence a better comparability, that accountants from the mid-20th century began to consider the need for standardised treatments, whether on a voluntary or a compulsory basis.

The Wall Street crash of 1929 in the US was much more severe than the corresponding stock market falls in Europe and the UK. In 1933 and 1934, federal legislation followed in America that was much more dramatic than anything in Europe, and included the creation of the Securities and Exchange Commission (SEC) to regulate the market for quoted companies. The SEC was formally charged with the task of drawing up detailed rules for accounting disclosure, but leaders of the accounting profession (led by George O. May, senior partner in Price Waterhouse, New York, a naturalised immigrant from England) persuaded the SEC to delegate this task of setting accounting standards to the American Institute of Accountants. It is notable that George May figures in the interviews with Kenneth Wright, Eric Davison, Jack Clayton, William Fea and Will Baxter. However, the SEC, since its inception, has always retained an important role in monitoring accounting standards as well as the accounts filed by individual companies with the stock exchanges.

Detailed mandatory accounting standards were, thus, being set in the US from the mid-1930s.

In Britain, the ICAEW set up its own programme of Recommendations on Accounting Principles from 1942. These had persuasive influence but no legal backing. The roles of accounting standards were quite different in the two countries. Within the UK, company law since 1844 had required accounts to be prepared for members and also filed on public record with the Registrar of Companies, but the law said little about the detailed contents of the accounts. The Recommendations on Accounting Principles were intended to standardise the treatment of controversial items for all companies - not just listed companies as in the US. The SEC, by contrast, has always had the force of government behind it, and could refuse permission for accounts to be filed with the stock exchanges - without which their securities would be suspended from quotation. Thus, while the SEC's authority only extended to quoted companies, rather than the great majority of unquoted smaller ones, US accounting standards had a degree of legal backing that was lacking in the UK.

During the Second World War in Britain, there were strong pressures for accountants to contribute to public policy making, and close relationships built up between the UK professional accountancy bodies and various parts of government (see, for example, Noguchi and Edwards, 2004). Reference is made to this cooperation in several of the interviews; for example, Fea notes the advice needed from GKN to make consolidated group accounts work in practice. Professions in general had grown over the centuries out of a tradition of expert service to the community, by claiming a right to privileged control over areas of practice that often involved a monopoly of practising rights as well as restricted access to training and certification. Within the UK, professional bodies of accountants developed from the early 19th century, with a great deal of lobbying by them, to be recognised in law to take appointments to various forms of public office, for example to administer bankrupt estates, to audit public bodies and companies, and later to give independent financial advice (Stacey, 1951). Six major UK accountancy bodies emerged from the campaigns of the

20th century, together with a handful of other bodies that have won lesser recognition and status.

Many accountants served in the Second World War in the armed forces, and hundreds lost their lives in the process. Many others were exempted from military service in view of the value of their work to the national administration and to the economic output of the nation. At the end of the war, thousands of accountants returned to civilian life, and ICAEW in particular set up series of lectures to help its members to adjust to work in a post-war Britain beset with a plethora of regulations, taxes, rationing and austerity. All twelve interviewees refer to these lectures, which clearly influenced their relationships with the profession and with each other. Thus, Kenneth Wright refers to the ICAEW as being remote from its members until the lecture courses were organised. The ICAEW itself was very short of resources after 1945, yet members agreed voluntarily to raise their membership subscriptions in several successive years in order to help it out. Morale amongst members was raised to a rare degree because of this involvement in the lecture series.

Post-war recovery saw a gradual rise in living standards, economic growth, and a slow freeing of business from many of the regulations that the war had necessitated. From time to time, financial scandals upset investor confidence, and these tended to raise doubts about the efficacy of accounting and auditing processes. Business became much more international as trade and foreign investment grew. Competition grew, too, as mainland European countries rebuilt their industries and challenged the economic power which the Americans had established since the 1890s and had expanded during the war years.

Serious questions over accounting rules arose in particular towards the end of the 1960s, widely publicised in the UK press (Stamp and Marley, 1970). For example, the Accounting Standards Steering Committee was set up in the UK in 1970, largely in response to the prompting of Eddie Stamp, with the task of restoring confidence in financial markets just as US legislation had sought to do after the Wall Street Crash. By the dates of my interviews, a number of standards had been issued, with the backing

of the six major professional bodies of accountants, some of them readily accepted and uncontroversial but others only after fierce debate.

I was teaching the contents of these SSAPs in the classroom, and I was also involved in discussing them within my professional body (then the Association of Certified and Corporate Accountants, and now the Association of Chartered Certified Accountants). Accounting standards were still relatively recent in the UK, and there was still a sense that they were 'owned' by the profession rather than being imposed by a separate authoritative body. Until 1990, SSAPs had to be adopted by the professional bodies to give them authority. The standard setting body could not demand enforcement since UK law declined to back them specifically. In fact, the Companies Acts only required that the accounts showed a 'true and fair' view, without setting out what this meant in practice.

Accounting for tax was one of the areas of difficulty. UK standard setters had adopted a US approach that treated taxes as an expense of running the business. This ran counter to traditional British views of tax as an appropriation of part of the profits of the business, rather than a charge necessary to the process of earning profits. After all, no tax was paid at all unless there were profits.

The most controversial issue of all was how to deal with inflation. As noted earlier, some accountants were content still to use historical cost accounting, whilst others preferred current purchasing power adjustments to the historical cost accounts, and those in industry and commerce typically wanted a replacement cost system, particularly if this meant profits could be reduced for the purposes of tax assessments. Given that several of the accountants interviewed had made their careers in industry, they might be expected to favour replacement cost accounting. Indeed, some of them expressed a lot of sympathy with this view. But all of them had trained as chartered accountants in auditing offices, and they all appreciated the need for accounting to be verifiable and orderly. Moreover, they tended to accept that the main duty of a company was to serve the interests of its shareholders, although it was notable how strongly some of them, like Norman Lancaster, expressed their loyalty to employees, and sought to keep them informed of what was going on in the business.

Some, particularly Lawrence Robson, Bruce Sutherland and Jack Clayton, were uneasy about inflation accounting on the grounds that it implied an acceptance of inflation at a time when government should be under the greatest possible pressure to reduce the causes of inflation.

An important message from the interviews was that even this group of accountants, who took an unusually active part in the affairs of the profession, owed their prime loyalty to their employers. Most worked for large companies, and served their employers with commitment and dedication whilst also 'doing their bit' for the profession. They seemed to have enjoyed their work and derived great satisfaction from doing it well. They spent relatively little time on tax and legal compliance and more on financial and managerial systems to guide decisions, to raise capital, and optimise the efficient usage of resources.

Costing

Within companies, accountants began to develop operational control systems from the late 19th century, led once again by American practice because of the much larger size of US companies and the more advanced professional training of American managers. For example, as early as 1900, MBA degrees were starting to become a common feature of the education of managers in the US whatever their specialist backgrounds, so that for example a production engineer would learn something about marketing, finance and business strategy as well as further engineering skills. MBAs were often studied on a part-time basis at evening classes at many American universities.

In Britain, it was much rarer for business managers to take any formal qualifications, and universities were much slower to offer business-related degrees. Indeed, one of the reasons why there were very many more qualified accountants in Britain than in other countries (per head of population) was that accountancy represented one of the few available means by which to obtain a formal business qualification. Few accountants until the 1970s had degrees, and far fewer had degrees in accounting, but they could study part-time, mainly through correspondence courses, to

obtain their qualification as a chartered accountant or as a certified or cost accountant.

The nature of cost accounting changed very dramatically during the 20th century. Accumulating data to make up the costs of production typically involved large numbers of items being recorded, collected, tabulated and added. This was clerical work in the early days, and cost accounting was very much a matter of managing large staffs of clerks (often women, even before women were employed in large numbers outside millwork).

The mechanisation of data collection and processing began with adding machines and progressed to punched card equipment until computers took over data processing. The ability of computers to rapidly re-analyse large amounts of data enabled alternative forms of analysis to be calculated very fast and at relatively low cost, and it soon became possible to transmit information over electronic networks. This facility much increased once the internet became available - but this was after the time of my interviews.

Accounting involves accessing and reporting on every part of an organisation, and the accountant typically manages the process of setting budget forecasts as well as reporting actual outcomes in relation to those budgets. The accounting team is thus very well positioned strategically to know the organisation and how it functions. The development of standard cost accounting, once again mainly in the US, grew wherever the business involved repeated, standardised activities. Standard amounts of inputs were identified as necessary to perform each major function, and production staff were held responsible for using such inputs efficiently, at pre-set standard price rates. Purchasing budgets were usually the responsibility of specialist buying departments, who would be held responsible for variations between standard and actual prices, just as the production staff were responsible for variations between standard and actual quantities of inputs used. Norman Lancaster gave a lecture on 'Budgeting and Standard Costs in the Engineering Industry' in February 1950 to one of Ronnie Edwards' industrial administration seminars, and both Bill Fea and Jack Clayton speak of their importance.

It was about the time of the interviews, from 1979 onwards, that even standardised operations started to become less suited to standard costing. Greater flexibility in production, as well as fuller delegation of control to operating units, led to control by means of financial targets set in much less detail than the full standard costing systems. At their fullest, standard costing systems were often integrated with the financial accounting system to produce, as a by-product, inventory reports on raw materials, work in progress and finished stocks as well as the costs of goods actually sold in each period.

New debates arose over the best ways in which complex multi-unit organisations could be controlled, but there were inherent tensions between delegating authority to line managers to make decisions and centralising decisions to achieve optimal results for the group as a whole. In this area, as in others, like how to allocate joint costs, there was no correct answer waiting to be discovered, although many people tried to discover one.

Summary of key issues

The UK accountancy profession was described earlier as being ‘unlearned’. I hope that this brief review of some of the key problem areas in accounting shows why it is that accounting is not a precise discipline, with a set of definitive solutions for any situation. It requires judgment to address the complexities of organisational life, with all the behavioural subtleties than control systems involve. The people I interviewed had ample experience of accounting complexities in practice. Those who spent their working lives in auditing practice were closely attuned to the needs of their clients, whilst those who worked in industry were aware of the needs of their companies for sound business strategies and good team relations with their colleagues and employees.

Introducing the twelve people interviewed

The introductions, like the transcripts that follow, are presented here in chronological order of the interviews. The reason is that several passages in the interviews make reference to people who were interviewed later, and about whom I knew little at the time. There is no order of seniority here, the order often being a matter of luck, determined, for example, by when people happened to be free to give me time to visit them. Only the interviews with Kenneth Wright, Jack Clayton, Basil Smallpeice and Bruce Sutherland are published here in book form, this group comprising an important and diverse sub-set of the group. The interviews with the other eight are all available on the website of the Institute of Chartered Accountants of Scotland - www.icas.org.uk/research

This selection of interviewees is biased by the inclusion of relatively few people in auditing practice and a lot of people with industrial careers. This is largely because patterns of audit practice are more similar than the preoccupations of industrial accountants. Thus, the sorts of issue that Stanley Dixon discusses are mainly to do with how to set costs and prices for chemical products where most distillation processes are common to all of them. It hardly mattered in some respects which products were regarded as the principal products of tar distilling and which the by-products. The output proportions could not be changed very readily, even if selling prices made some more profitable than others. Basil Smallpeice, by contrast, was mainly concerned with high level business strategy, in BOAC and later in Cunard. His work did not require accounting skills as much as a very high level of managerial skills. Even so, his autobiography (Smallpeice, 1981), published, as it happens, within months of my interview with him, makes frequent reference to contribution margins and similar concepts very familiar to accountants, and these were very valuable in the task of putting resources to their most useful applications.

E. Kenneth Wright

Kenneth Wright spent his entire working life in practice, becoming senior partner in Dearden Farrow (now part of BDO Stoy Hayward). This was not one of the largest international firms, but a substantial firm nevertheless, with its head office in London and a number of offices in other cities. He refers in the interview to his impaired hearing, but he was an excellent communicator, with a pronounced sense of humour. As noted earlier, he stressed the meticulous care with which the ICAEW set about planning its merger with the Society of Incorporated Accountants and Auditors, after the two presidents had talked over such a scheme on a transatlantic voyage to New York. Kenneth Wright was one of the fairly small number of graduates taken into articles before the Second World War, having read economics at Cambridge. He qualified as a chartered accountant in 1933, and became president of the ICAEW in 1975. His studies in economics gave him sympathy with the use of replacement costs as a solution to accounting for inflation, although, as the interview shows, he later came to regard current purchasing power accounting as preferable.

Lawrence W. Robson (interview available in electronic form only)

Although he was a practising accountant throughout his career, founding a substantial and successful auditing firm in Robson Rhodes, Lawrence Robson was just as much committed to management consultancy and he founded a second firm - Robson Morrow - which also flourished. He had a flair for marketing his ideas, his firms, and himself. He did not attend university, entering articles at the age of 16, and joining Peat Marwick (now KPMG) after qualifying as a chartered accountant in 1929. He quickly developed a reputation as a problem solver during the Second World War, and he led one of the delegations that visited the United States under the Marshall Plan to re-build British industry once the war finished. He drafted a text for the ICAEW on standard costing that became one of

the major primers on the subject. He also took an active interest in public affairs, and held office in the Liberal Party.

Stanley Dixon (interview available in electronic form only)

A graduate of Oxford in classics, philosophy and ancient history, Stanley Dixon qualified with a small firm in 1927 and then joined Peat Marwick. He soon decided to follow a career in industry, as did the majority of chartered accountants by the middle of the 20th century, and he spent his career with Yorkshire Midland Tar Distillers in the English Midlands. He retained an interest in the affairs of the ICAEW, and joined first the Birmingham and District Society, and then the ICAEW Council in 1958. He was the first president of the ICAEW to come from industry. Until the late 1940s, the ICAEW's Council was only open to members who were 'principals' (partners or sole practitioners, rather than employees) in auditing firms. While several of the other people interviewed (e.g. Eric Davison, Basil Smallpeice and Jack Clayton) were heavily involved in campaigns to change this policy, Dixon was not an active campaigner, and by the time he joined Council attitudes had already changed. Much of the interview was about the nature of his company's business, and dealing with joint costs. He used replacement costs within the company, but not for financial reporting under the Companies Act.

Eric Hay Davison (interview available in electronic form only)

Another non-graduate, Eric Hay Davison qualified in 1928 with a medium-sized firm and went into industry shortly afterwards, first with HMV at Hayes, Middlesex, then at Turner Brothers in Rochdale, then back to London with Simpson's, Courtaulds and GEC. From the 1930s, in London, he became involved with some important institutional developments, notably the creation of the Accounting Research Association (which foundered after the war), and later with both the London Society of Chartered Accountants and the London Industrial Chartered Accountants Group (LICAG). He was one of the first non-practising members of the

ICAEW Council (a chartered accountant who was not a partner or sole practitioner in a firm of practising auditors). His son, Ian, has also become a very well known member of the profession.

Jack Clayton

Jack Clayton came from Manchester, and qualified with a small firm in 1928 without taking a university degree. On qualifying with the ICAEW, he joined the leading Scottish auditing firm, Thomson McLintock (later absorbed into KPMG), in their Manchester office before going on to an industrial career. His experience with the construction industry led to his involvement with the development of the 'pay-as-you-earn' system of income tax. Always a vigorous campaigner and vocal critic, he became a member of ICAEW Council in 1948 and chair of its Taxation and Financial Relations Committee almost immediately. Although his career was mostly in commerce, he continued to play an active part in the deliberations of the profession, writing many articles and letters to the press and to the journals *The Accountant* and *Accountancy*. Both journals were privately owned and managed, but maintained close relationships with the ICAEW and often expressed views of the ICAEW Council. Despite his reputation for being hostile to inflation accounting, Jack Clayton makes clear in his interview his support for current cost accounting as developed by the 1975 Sandilands Committee on Accounting for Inflation. He was also keen on merging the main UK professional accountancy bodies into a single 'Royal Institute of Chartered Accountants'. He gave the impression of being a man very confident in his abilities, and it is easy to infer from the interview that he had an interest in receiving an honorary degree from Lancaster.

Norman G. Lancaster (interview available in electronic form only)

Another non-graduate, Norman Lancaster qualified in 1930 with a medium-sized auditing firm and then joined Deloitte's. He was one of several of those interviewed who took up an industrial career in the English Midlands, rather more in a senior management capacity than in

an accounting role. He was never a member of the ICAEW Council, but served on various committees, such as the Cost Accounting Sub-Committee. He expressed a view in the interview that it was important to have an accountant as number two or three in the management team, but preferably not as chief executive. He said he was disappointed to learn that GKN had recently appointed an accountant, Trevor Holdsworth, rather than an engineer, as chief executive of what was the largest engineering company in Britain. When Bill Fea read of this, he told me in correspondence that he was heavily involved in securing the appointment of Trevor Holdsworth to GKN - where Fea himself spent most of his career - it was 'probably the best thing I ever did in my life'. Amongst Norman Lancaster's interests was the University of Birmingham, on whose finance committee he served and from whom - like Stanley Dixon - he received an honorary doctorate.

Sir Basil Smallpeice

Sir Basil Smallpeice graduated with a B Com degree from London University as an external student, and qualified in 1930 with a small firm, moving from Norwich to London with them after his first year as a trainee. Immediately on qualifying he moved into industry, where he spent his whole career, latterly in very senior positions in British Overseas Airways Corporation (later merged with British European Airways to form British Airways) and then the Cunard steamship company. In both, he was heavily involved in rescuing a major transport business that was in serious financial difficulties, and restoring each of them to health. To his evident chagrin, he was dismissed in each case soon after the business had been rescued, in the case of BOAC as a political decision by the Conservative government of the time, and in the case of Cunard after the takeover by P&O (the Peninsular and Oriental line). His autobiography (Smallpeice, 1981) augments the interview valuably, but makes little reference to accountancy. He was a co-founder of the Accounting Research Association. He makes some critical comments about Lawrence Robson's understanding of standard costing, in which Smallpeice was well versed from his earlier

days at Royal Doulton. He was author of a very influential paper, 'The Future of Auditing', during the Second World War which led to a major campaign to raise the profile of non-practising members of the ICAEW (debated at the ICAEW's Annual General Meetings in 1941 and 1942). He became the first non-practising member to become a member of the ICAEW Council.

William W. Fea (interview available in electronic form only)

An Oxford graduate in politics, economics and philosophy, Bill Fea qualified in 1931 with a small firm and soon went into industry where he made his career with Guest, Keen and Nettlefold (GKN), the major engineering conglomerate in the UK. He became a member of the ICAEW Council in 1948, chairing the Taxation and Financial Relations Committee. He supported the use of current purchasing power accounting, which he used at GKN, and he served on three successive ICAEW working parties on inflation accounting, one of which he chaired. He was also much occupied with introducing consolidated accounts at GKN, consisting of a group of 100 companies, and he was a member of the working party that worked on consolidation principles at the ICAEW in the course of advising on the group accounting requirements of the 1947 Companies Act. The ICAEW set up its Non-Practising Members' Committee in 1943, in response to the criticisms made by Basil Smallpeice and others, and Bill Fea was appointed as its first chair.

Bruce Sutherland

Unusually in this group of twelve, Sutherland specialised in taxation - he is still running his own practice in the Cotswolds. He served as an army officer in India until 1947, when he returned to England. He was then admitted to Nottingham University to read classics, but left after one year. He expresses in the interview a regret that he was not able to take up degree studies at Harvard, which he visited on a scholarship, after qualifying in 1951 with a medium-sized Midlands practice. Like Lawrence

Robson and Jack Clayton, he took a keen interest in national politics, and held strong views about the need for government to control inflation by monetary policy. Unlike Lawrence Robson (an active member of the Liberal Party), Bruce Sutherland was a Conservative, strongly supportive of Margaret Thatcher. He was hostile both to inflation accounting and to accounting standards, and he also campaigned vigorously and effectively against merging professional accounting bodies.

Professor William T. Baxter (interview available in electronic form only)

The only Scot in the group, Will Baxter took his BCom at The University of Edinburgh and qualified as a Scottish Chartered Accountant with ICAS, with a small practice in that city in 1930 before entering a teaching career. He taught first in London, and then in Cape Town for several years before returning to London in 1947 to teach at the London School of Economics (LSE) until his retirement. He died in 2006, a month before a symposium at the LSE arranged to mark his attaining the age of 100. A more recent interview with him by Professor Geoffrey Whittington, published in an ICAS volume of interviews with four eminent Scottish accountants (Walker, 2005), augments the present interview. For many years, the accounting degrees at the LSE were the best known in the UK, with a three year undergraduate course and a Master's programme in the subject taught over two years (with exemption from the first year for those with a good honours first degree in a cognate subject). While the first UK accounting degrees were offered at Birmingham from 1902, the LSE followed soon afterwards, both taught by part-time staff. Will Baxter was the first full-time professor of accounting in England, and he continued to write long after his retirement from teaching. The history of academic accounting in the UK is vividly recounted in the *British Accounting Review* Special Edition in June 1997; particularly valuable in the present context are the papers by Stephen Zeff on the period from 1947-1959 and by Robert Parker on 1960-1971. Will Baxter was a prominent advocate of replacement cost accounting, although during the 1940s he supported constant purchasing power accounting.

Harry Norris (interview available in electronic form only)

Another non-graduate, Harry Norris qualified in 1934 with a small firm in Manchester, and then joined Deloitte in London before moving into industry. The major part of his career was spent with a major construction group, Wimpey, in the London area, and although he was not a member of the ICAEW's Council, he joined the Taxation and Financial Relations Committee as well as being an active member of LICAG. He was the main instigator of the joint working party on the definition of profits set up by the ICAEW and the National Institute for Economic and Social Research, which reported in 1946. The report served, unfortunately, to show how little economists and accountants understood one another in those days. I sought to contrast this schism with the closer understanding shown between *The Economist* Intelligence Unit and the ACCA a few years later (Mumford, 1983). Harry Norris wrote a book on inflation accounting, published in 1947, that made a strong case for a replacement cost system. He evidently also did some part-time teaching at the LSE.

Godfrey Judd (interview available in electronic form only)

Another practising accountant, Godfrey Judd (like Kenneth Wright) was an economics graduate from Cambridge before he joined his father's practice. Mann Judd was already a substantial firm, originally in Scotland but from the time of the First World War, it moved its main office to London. Godfrey Judd qualified in 1936, became a member of The 1949 Group that grew out of the ICAEW's Oxford Summer Schools, and became a member of the ICAEW's Council in 1967, as well as a member of a number of its committees (although not of T&FR). He went to America in 1952 as part of the Anglo-American Productivity year. The interview is interesting in part for its account of the history of Mann Judd before it disappeared (by merger or takeover) into Touche Ross, including the abrupt ending of Mann Judd's working relationship with Barrow Wade Guthrie in New York. This history can be compared with the short set of essays published privately by Mann Judd Gordon & Company (1967), to mark the 150th anniversary of the founding of the firm.

Postscript

The transcripts of these eminent accountants provide a rich set of source materials about the key issues that faced accountants in the middle of the 20th century and, indeed, that still face them today. Lively debate over particular problems has been an integral part of the profession, and it is clear from the interviews how engaged members of the Summer Schools, the LICAG and The 1949 Group became in their discussions. I hope that, by getting to know something about the people interviewed in this set of transcripts, the reader will come to appreciate more about the development of the economic and social roles of accountancy, and be encouraged to take an active part in helping the profession to carry forward its skills and knowledge in future.

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