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In The Search For Accounting Knowledge - Everything Old Is New Again

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IN THE SEARCH FOR ACCOUNTING KNOWLEDGE - EVERYTHING OLD IS NEW AGAIN

by

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ABSTRACT

The following paper will attempt to substantiate claims that the accounting profession, has in over a hundred years, failed to adequately develop. Claims that the accounting profession has done little more than recycle financial accounting issues are not new, with such allegations having vocally surfaced in the past two decades. In order to achieve its aim, this paper will focus on Statement of Accounting Concepts number two [SAC 2], *The Objective of General Purpose Financial Reporting*. In gaining an understanding of today’s position of SAC 2 and how it has been arrived at, legislation dating over a hundred years will be examined, concluding that the accounting profession has failed to develop. Yet most importantly this paper will conclude that the conceptual framework, the professions unique body of knowledge seems to be little more than a blatant act of plagiarism.

INTRODUCTION

Our journey will begin at a time referred to as the modern era, a time when accounting underwent a transition, from bookkeeping to reporting, (Edwards 1989, 13). A time when the disclosure of financial information moved from two extremes, that where disclosure was virtually non-existent, to today when full disclosure is required. Long gone are the days of laissez-faire, when financial information was kept secret, considered to be the private business of the Joint Stock Company. Today disclosure of financial information is vital, with SAC 2 proclaiming that it is
through the disclosure of financial information that managements duty of accountability, is discharged (CPA 1995, 55).

For centuries the need to be accountable, and protect shareholders, has often directed the path which accounting was to take. The Bubble Act of 1720, was introduced to combat fraudulent behaviour which plagued the Joint Stock Companies at the time, resulting in substantial loss of shareholder money (Gower 1992, 26). Once again, over two centuries later, the accounting profession it would seem responded to the need to be accountable to shareholders. With the catastrophes of the 1929 stock market crash and the great depression, the accounting profession’s reputation was in tatters. Seen to be the cause of these drastic events, the public trust and perception of the accounting profession was at an all time low. In a bid to resurrect their professional status and bring uniformity to accounting, the profession began to search for answers, the search for an appropriate accounting theory was on. The answer was thought to be found when work on the conceptual framework had begun.

Less than a year after the True Blood Report was issued, the Financial Accounting Standards Board began work on the conceptual framework. Defined as

...a coherent system of inter-related objectives and fundamentals that can lead to consistent standards and that prescribe the nature, function and limits of financial accounting and financial statements (Gole 1994, 32).
According to the Financial Accounting Standards Board, (FASB) the conceptual framework was considered to be a constitution as it was to be the foundation, upon which accounting standards would be set (FASB 1976). Yet despite this milestone event, criticism still arose claiming that the accounting profession was guilty of recycling important accounting issues. Writers such as Lee (1990), who drew upon the work of Brief and Mumford, also upheld the view that accounting in the past hundred years has undergone very little development. According to Lee (1990, i) accounting seems to be plagued by the continual, "...recycling of financial accounting issues despite periods of sustained criticism, and despite the existence of researched solutions" and asked

...why a socially - valued and financially well rewarded profession such as accounting should have, and be content to have, a relatively static body of knowledge in which major problems are investigated but not resolved.

It is this quote by Lee that will be the foundation for this paper. A foundation which will ultimately lead to the evidential link between legislation that arose in Britain during the nineteenth century to eventually became the conceptual framework as it is known today. Britain will be the primary focus of this paper, at a time when disclosure of financial information became important, as a result of the industrial revolution and the expansion of the British railways, which played a key role in the waking of the need for financial reporting (Previts 1979, 80). Being one of the few European countries at the time to undertake and adapt to industrialisation and growth as quickly as it did, Britain has had the greatest
influence on English speaking countries, igniting this issue of disclosing financial information to eventually reach the status it holds today (Parker 1992, 44).

THE MODERN ERA

Witnessing legislative stagnation (Stacey 1954, 1) whilst at the same time undergoing one of the greatest changes in accounting history, that is, the transition from bookkeeping to reporting (Dicey 1920, 63), it was during the modern era that the first effects of the industrial revolution were felt, and the foundations for many of today’s existing accounting techniques laid. With the beginning of the nineteenth century marking an important change in Britain, the once chiefly agricultural population aided the development of the industrial revolution by becoming urbanised and moving to manufacturing and large scale production. Thus, with a once prosperous source of employment, namely agriculture, ceasing to exist, a new era of expansion began, which saw the growth of not only the manufacturing sector but the expansion of the railways in Britain (Stacey 1954, 3).

The dominant nineteenth century attitude of laissez - faire seems to have played an important role in developing the recognised need for disclosure in regards to Joint Stock Companies (Taylor 1976, 13), a need which was first realised with the expansion of railways, which saw many railway companies form throughout Britain. The need to finance the industrialisation of Britain saw a search for those willing to provide this much required finance begin and before too long there was a dramatic increase in the number of shareholders with a vested interest in British Railways.
(Lee 1976, 23). This unprecedented increase in the number of shareholders, gave rise to what was referred to as a "social problem". A problem which arose from a two sided dilemma. On the one side there was a need to encourage investment, whilst at the same time there was a need to protect shareholders (Littleton and Zimmer 1962, 80). Resulting from this "social problem" accountability became an important issue, and although accountability existed prior to the industrial revolution, the method of accountability is what changed once the Modern Era had begun.

With laisser-faire the dominant attitude during the early 1800's regulation regarding business activities was minimal. Dubbed a period of Financial Capitalism (Edwards 1989, 12), the need for disclosing financial information was not seen as important. Although disclosure was existent, information was not directly supplied to those concerned, nor was it supplied at regular intervals. Disclosure was kept very much internal, was predominantly spoken and kept to a minimum. The basis for such a technique was the assumption that merchants already had a detailed understanding of the business activities, thus not requiring any further disclosure (Yamey 1978, 111). This method of disclosure was common practice, for example in the Audit Office in Britain verbal disclosure took place before the Treasury. At the time, this was seen as the most appropriate act to be undertaken in protecting the public (BPP 1821, Vol 9). Later however it was to become the basis for years of debate.
As indicated previously, the railways played a major role in the emergence of disclosure requirements. With statutory company status a railways company intending to build a railway line could do so if authority was granted through acts of Parliament. As a result numerous private acts were passed taking the place of one general act. With this being the case, accounting provisions became notably different from one act to another and as a result uniformity was lacking (Littleton and Yamey 1978, 336).

This situation of non-uniformity remained until 1835 when the Great Western Railway Act was passed. Requiring that half yearly accounts be kept and disclosed to the shareholders at the half yearly general meeting, British Railways were brought a step closer to uniformity. Adopting such a laissez-faire approach, coupled with the fact that countless private acts existed, it was not too long before manipulation of Joint Stock Companies was rife. With this, came a gradual realisation that changes had to be made. In 1842, this realisation became vocal and the Warwick and Lemington Union Railway Act was passed. This 1842 development resulted in necessary regulation being imposed on Railway companies, regulation which was later to be adopted by the 1845 Companies Clauses Consolidation Act (Littleton and Yamey 1978, 337).

The incidence of fraudulent activities within Joint Stock Companies was not a new occurrence. Well before the Modern Era, Joint Stock Companies had been the vehicles of dishonest behaviour, tarnishing not only their reputation, but also hindering their development. From as early as the 1600’s Joint Stock Companies
became appealing to individuals wishing to participate in the public financing of
ventures, but who were either unwilling or unable to trade directly (Edwards 1989,
95). By the early 1700's, Joint Stock Companies reached their peak, with high
profits ensuring that there was no shortage of willing investors. However with
increased trade and profits and the ease with which Joint Stock Companies could be
formed, the occurrence of fraudulent behaviour had increased, resulting in, the
substantial loss of shareholder money (Lee 1976, 23).

The greatest losses of shareholder money at the time was the result of the South
Sea Company, whose negative behaviour had influenced the introduction of the
1720 Bubble Act. Formed in 1711, the South Sea Company appears to have been
formed for the sole purpose of converting the floating debt of the state, which was
estimated at ten million pounds into a funded debt. Holders were given the
opportunity to convert the unfunded debt to South Sea Company stock, receiving
the interest paid by the state as well as any profit made through trading by the
company. Much of future trading was based on the possibility that the South Sea
Company could trade in slaves with South America. During the course of the next
nine years, the South Sea Company would have a number of setbacks, the greatest
being the loss of over two hundred thousand pounds worth of property situated in
the Spanish - American ports which was seized as a result of war breaking out
between Spain and England. Despite this, State debts continued to be taken over
by the South Sea Company, and its shares continued to be sold at often inflated
prices. The South Sea Company was not the only one of its kind. Ventures began
appearing everywhere, and there was definitely no shortage of buyers, ironically
when the bottom fell out of the market, the directors seemed unscathed whilst those who made the adventures possible by investing were the ones who suffered the most (Hasson 1932).

In direct response, the Bubble Act of 1720 was introduced, in an attempt to eliminate fraudulent behaviour. In reality, the Bubble Act accomplished very little as its main emphasis was to increase the difficulty with which a Joint Stock Company could be formed on a corporate basis (Lee 1976, 23), in no way implementing means of protecting shareholders.

The realisation that accountability was lacking and that fraudulent activities were still plaguing Joint Stock companies (Lee 1976, 23), was not made for over a century after the Act was first implemented. With Parliament reluctant to undertake any further legislation in regards to Joint Stock Companies whilst the Bubble Act was in place, it was almost two decades before a select committee was formed to investigate the activities of Joint Stock Companies (BPP 1884b, 2098). This realisation of the 1840's can be identified as the first step towards today's objective of general purpose financial reporting contained in SAC 2, a position of realisation and acceptance that published financial statements are important to all who have either direct or indirect contact with a company.
THE FOUNDATION OF TODAY

In 1841, in a bid to remedy this seemingly endless problem, the board of trade appointed a Parliamentary Committee to investigate Joint Stock Companies, in the hope that a solution would be found. With the primary objective of the Select Committee being to ensure that the public was better protected, laws relating to Joint Stock Companies were examined with vital opinions being reported to the House (BPP 1844b, iii). As in the eighteenth century, several classes of bubble companies existed, of which only one will be discussed for the purposes of this paper. The bubble class in question is class two which states,

Those which, let their objects be good or bad, are so ill constituted as to render it probable that the miscarriages or failures incident to mismanagement will attend them (BPP 1844, iv).

Shareholders were often put at risk when fraudulent accounts were made up in an attempt to delude shareholders. Such deceit was aided by the fact that the accounts in question were often not audited, and the accountant involved was often a relative of the managing director (BPP 1844b, iv). Given the fact that Joint Stock Companies had by 1841 experienced almost a century of fraudulent behaviour it was hoped that this time around a suitable improved solution could be found which would protect the shareholders and the public. This aspiration was echoed by society who believed that by this time a lesson was learnt which would allow the prevention of such a recurrence (Editorial 1841, 6).
GLADSTONE'S JOINT STOCK COMPANY ACT - THE INQUIRY

The inquiry into Joint Stock Companies which ran for several Parliamentary sessions, began in 1841, and examined the activities of such prominent assurance companies as the West Middlesex and General Annuity Association. During the course of the inquiry, substantial evidence was given to the committee regarding the fraudulent activities of Joint Stock Companies. Evidence was given by prominent business men such as Sir Peter Laurie, all of whom had substantial dealings with Joint Stock Companies. With the inquiry and discussion focusing on the all important question of whether or not financial statements should be disclosed, the overall consensus of the investigation weighed heavily in favour of publishing financial statements, in particular the balance sheet and audit report.

With the acknowledgment of just how discrediting and damaging the fraudulent activities of companies were, witnesses such as Sir Peter Laurie, could see no wrong in publishing financial statements. A practising barrister and director of several organisations such as the Union Bank in London, Sir Peter Laurie held no objections to publishing periodic financial statements, believing that no harm could be done provided that the company had nothing to hide (BPP 1844b, 64);
...they would feel proud of having opportunity of showing their solvency, and that company which would refuse to do so, I should say unhesitatingly was a company to be suspected.

This view was upheld by a second witness known as Kirkpatrick, an actuary of The Law of Life Insurance Company, who had for several years on a regular basis voluntarily published their accounts to shareholders (BPP 1844b, 660). Kirkpatrick, testified that publishing financial statements would have no negative impact on innocent and sound companies, suggesting that to do so would allow for the detection of unsound companies. Further evidence supporting this claim was given by Ansell, another witness in the inquiry, who like Kirkpatrick also held the position of actuary in the Atlas Insurance Company and Her Majesty’s Customs Fund. Ansell refuted claims that a company’s profitability would be negatively affected by the publication of financial statements, arguing that the profitability of a company was really not the issue, but protecting the public was. Reminding the Committee of the primary purpose for undertaking the inquiry into Joint Stock Companies;

I believe it could not be unprofitable, inasmuch as the truth would be very credible to most of the well-conducted institutions, but whether they were profitable or unprofitable to themselves, if the public are protected against frauds, that is the particular object you would have in view (BPP 1844b, 657).

In 1843 the Select Committee reconvened and evidence was once again heard. Unlike 1841, evidence given in 1843 witnessed an increase in the opposition to publishing financial statements. Despite this, however, a majority still held that to
publish periodical financial statements was necessary and by no means discrediting. Several key points arose from the testimonies given by witnesses in 1843, many of whom faced the committee for a second time. Firstly Sir Peter Laurie, whilst still firmly defending the need to publish financial reports, called for these statements to be distributed prior to the general meeting allowing time for review by the shareholders. Furthermore, general meetings, according to Sir Laurie, should be held annually and not every five to ten years as was considered the norm (BPP 1844b, 884). A second key point was that a public officer should be appointed, whose primary function would be to protect the public from any fraudulent behaviour (BPP 1844b, 138). Although consensus showed that there was considerable support for the publication of financial information, the extent of information to be published was considered debatable. How much information should be disclosed? Would the disclosure of assets and liabilities be sufficient? This, it was concluded, was open to debate (BPP 1844b, 147).

In questioning the need to publish financial statements, the Committee also questioned to whom these published reports should be made available. Should the shareholders be the only recipients of financial information, or should such information be made available to the public as a whole. A majority supported the view that the information should be made available to shareholders and other interested parties that may also do business with the company, the differences arising as to the method of availability (BPP 1844b, 807). Witnesses such as Bigg, a practicing solicitor and director of the Legal and General Life assurance Society, believed that information should not be sent out but should be made available in a
public office where any and all interested parties could examine the reports (BPP 1844b, 787). Was this a cost saving measure or was it simply a way of trying to discourage as many people as possible from viewing these reports?

Just as there were supporters of publishing financial information there was also a minority who upheld the traditional view of laissez-faire and criticised not only the disclosure of financial information, but any legislation which interfered with Joint Stock Companies. Duncan, a practicing solicitor upheld this, testifying that such legislation requiring disclosure would be of no benefit;

I should regard with extreme pain any attempt of the legislature to suppress or check them, and I'm satisfied that the evils which are associated with them, and which have produced against them great prejudices in the public mind, can be removed... it would be a fatal error to legislate upon the subject with any design to give way to those inconsiderate prejudices (BPP 1844b, 20964).

The evidence heard by the select committee supported a change in law, which admittedly would not eliminate fraudulent behaviour completely, but which could help to minimise it. After all, shareholders could still be misled, however misleading a populace of shareholders was thought to prove more difficult. A change which gave a glimmer of hope, a change which was only considered possible, with the support of Parliament (BPP 1844b, 159).

Several years after the initial inquiry began and after the last page of evidence had been heard, the 1844 Joint Stock Companies Act was introduced. Consolidated in 1845 to become known as the Companies Clauses Consolidation Act, the 1844
Joint Stock Companies Act is today considered to be the basis of our company law, and the first real tangible evidence of the realisation that public safety is an important issue in accounting (Gower et al. 1992, 39). Considered to be the father of public security (Foot and Matthew 1974, xxxix), it was the expertise and persistence of the newly appointed President of the Board of Trade, Sir W.E. Gladstone, to whom the 1844 companies act was attributed. Gladstone, who began to chair the select committee in 1843, was well known for broadening the extent of the inquiry into joint stock companies, and delivering one of the most influential pieces of legislation. Legislation which would eventually become a guide that changed the path of accounting forever (Gower et al. 1992, 39).

With the 1844 Joint Stock Companies Act came an important breakthrough. For the first time ever, legislation was passed requiring the publication of financial accounting information. Considered to have a modern outlook, the Act required the preparation of a balance sheet, which was to be presented at each annual general meeting (BPP 1844, 788), and made available prior to the meeting for review by interested parties (Littleton and Yamey 1978, 357).

Although the 1844 Joint Stock Companies Act is considered to be a vital turning point in accounting development, the Act itself and some of the legislation put forward was not original to Gladstone and his committee. With the purpose of the enquiry being “the better security of the public”, the committee had made a number of recommendations including the periodical balancing, auditing and publication of accounts. However, as argued by Chambers (1991, 10), the keeping of accounts
and periodical financial reporting was utilised for accountability purposes as early as the eighteenth century. Even in 1841, when the Select Committee was commissioned to investigate Joint Stock Companies, deeds of settlement of some twenty six companies, required the keeping of accounting records and the regular preparation of a statement of the stock and capital of the company. As Chambers (1991, 11) further observes, it is unlikely that those who framed the 1844 Act were not aware of the provisions of the deeds of settlement. They would also have been aware of the perceived protection periodical financial reporting could provide to company members and creditors against self-serving directors and officers. Further support for Chambers argument is evident in literature at the time. For example, Hunt (1936, 56), cites a letter to The Times in April 1833 in which it was suggested that promoters of ventures should be accountable to investors for the funds entrusted to them and that there should be some form of stewardship reporting.

Consolidated into the 1845 Companies Clauses Consolidation Act, the 1844 Joint Stock Companies Act proved to be an insufficient remedy to the problem at hand (Editorial 1844, 7). Appearing to move away from the dominant philosophy of laissez-faire, a great deal of freedom was still provided for when preparing a balance sheet. No mention of the form or content which the balance sheet should take was made and there was no clause within the Act which associated the date of the balance sheet with that of the general meeting (Edey and Panitpakdi 1978, 357). As a result of such ambiguity, continual acts of misrepresentation occurred.
During an inquiry in 1852, evidence had shown, that although the preparation of a balance sheet was compulsory, the Registrar of Joint Stock Companies was given little power to ensure that joint stock companies did fulfil this requirement. Knowing that the Registrar had no powers to command the preparation of the balance sheet, many joint stock companies failed to meet this requirement. Balance sheets that were submitted were often difficult to understand and were prepared in a manner which only the preparer saw fit. Despite this, the Registrar of Joint Stock Companies was not permitted to request further information or explanations, the balance sheet, as submitted, was the last word.

To further hinder the process, the balance sheet was to be full and fair, yet an explanation of what full and fair was, remained unanswered, similar to today’s problem of what constitutes true and fair? The clause requiring balance sheets to be audited was also of little help, as the act did not require the auditor to be a qualified accountant (Lee 1976, 26). By the conclusion of the 1852 inquiry, public opinion was evident, the requirements of the 1844 Joint Stock Companies Act were worthless and had the effect of misleading rather than informing.

AROUND AND AROUND AND BACK AGAIN.

A LASTING CHANGE HALF A STEP FORWARD TWO STEPS BACKWARDS.

In 1856, the development of financial disclosure did a complete about face. Replaced by the 1856 Joint Stock Companies Act, all the requirements pertaining to
the audit and balance sheet were revoked. The only explanation given at the time was by the then president of the Board of Trade, who declared that; "...having given them (joint stock companies) a pattern the State leaves them to manage their own affairs and has no desire to force on these little republics any particular constitution" (Hansard Parliamentary Papers, 1856, 134), allowing joint stock companies the freedom to choose whether or not disclosure would take place.

Despite the compulsory requirements being revoked, the 1856 Joint Stock Companies Act contained greater detail in regards to the balance sheet compared to previous legislation. Within the Act, the model articles of association provided voluntary reporting and auditing provisions (Lee 1976, 26) as well as the ability to enforce penalties against companies that, upon deciding to undertake disclosure, were found to be acting in an improper or fraudulent manner (Benston 1976, 15).

With possible reasons for the landmark decision given, the real reason behind the abandonment of the balance sheet requirements has never been determined, with laissez - faire chosen as the most popular reason, interference was seen as unnecessary and unwanted (Littleton and Yamey 1978, 360). However, if laissez - faire was the reason for such a turn around, why would seemingly stricter requirements be included in an act that was to reflect this unwanted interference (Kurtovic 1996, 37).

Although the 1844 Joint Stock Companies Act may not have accomplished the objectives it set out to achieve, as it did not seem to have the potential to enforce its
provisions, there is no doubt that the Act was not completely unsuccessful. For the first time disclosure of information, and the need to let the public know, was realised. The status of the balance sheet reached a status never before reached, a development which paved the way for the future.

While the apparent validity of the laissez-faire approach was called into question, the secrecy of financial reporting, would remain until the turn of the century and it was not from a lack of trying. For example, in 1862 a third Companies Act was passed consolidating the company law of previous years. With no new changes or further developments on the existing legislation, the most significant change was the omission of the clause requiring that books be kept in the double entry form (Littleton and Yamey 1978, 368), it was this 1862 Companies Act that was to remain the principal act until 1908.

**TO BE OR NOT TO BE - ATTEMPTS TO REINTRODUCE THE LEGISLATION OF 1844**

Despite the introduction of the Prevention of Frauds Act in 1857, which made it an offence for companies to falsify their accounts, (Benston 1976, 15), manipulation was still a problem, irrespective of whether companies chose to disclose financial information or not. Even though Gladstones’ requirements had a short life, there were many individuals who believed that if utilised correctly, success may have resulted. With this being the case, several attempts were made to re-introduce the 1844 requirements, in a bid to finally eliminate or at least minimise the deliberate misuse of financial statements.
The first attempt can be traced back prior to the passing of the 1862 Companies Act, by Lord Wensleydale who submitted a Bill before Parliament, demanding that half yearly publications be made of all statements by all companies (Hein 1978, 192). A proposal which was rejected by the Lord Chancellor, on the grounds that the amendments made were objectionable (Hansard Parliamentary Debate 1860, 2218). Seven years after this first failed attempt, a select committee investigating Limited Liability Acts, heard overwhelming evidence in favour of disclosure. Key witnesses such as the then Registrar of Joint Stock Companies, the Honourable Edward Cecil Curzon advocated that every company should be required to register a balance sheet claiming that the public demanded such information (BPP 1867b, q49). Here for the first time, in evidence given by Curzon, was the recognition made that such information is not just required by those directly affected by the company, but also the public who indirectly are also affected.

Curzon was not the only witness to make such a claim in the course of this inquiry. David Chadwick, an accountant with twenty five years experience and a member of Parliament, also argued the need for disclosure requirements. Extending the requirements put forward by Curzon, Chadwick argued that it was not just the balance sheet, but all accounts that should be registered and made available to shareholders (Hein 1978, 193). As a result of the evidence heard, a Bill was submitted to Parliament, entitled, The better regulation and supervision by the Board of Trade of the accounts of railway and other joint stock companies (BPP 1867, 381). The bill which submitted Chadwicks proposals fell on deaf ears and the final act passed by Parliament contained no such requirements (Hein 1978, 196).
A decade after Chadwicks proposals were rejected, another select committee was formed, investigating company legislation. Once again Chadwick had submitted before Parliament a proposal that once again pushed for the compulsory disclosure of financial information. In addition to this, a prescribed form of balance sheet was submitted, which was required to be prepared and presented at least once a year, and which was to be made available for examination seven days prior to the general meeting. Furthermore, section seven of the Bill required at least two directors and the auditors to sign the reports verifying that the information contained in the reports was factual, giving power to company members to take legal action if these requirements were not met (BPP 1877, 303).

Despite the overwhelming support for Chadwicks recommendations (BPP 1877b, q470), the greater requirements and the threat of legal liability, saw minor criticism arise against the submission. Many of the critics preferred Chadwicks earlier proposal, whilst devotees of laissez - faire, such as Sir George Jessel, believed that no interference as yet was warranted (BPP 1877b, q1486). According to Jessel, the balance sheet itself was not a statement that could be trusted, arguing that even if it was, if one was determined to deceive another, they would (BPP 1877b, q2253).

Notwithstanding the approval that was met by the proposed Bill, criticism once again prevailed, with the select committee concluding to discontinue any further investigation, and the Bill therefore was rejected (Hein 1978, 199). Although withdrawn, an important issue was highlighted by the proposed bill. For the first time, the words protection and shareholder were used in the same sentence by Sir
George Jessel, who claimed that the balance sheet was of little use and that “...if anyone imagines that it will protect the shareholders is simply a delusion in my opinion” (BPP 1877b, q2193). Seldom mentioned, the purpose of disclosure had been directly linked to shareholder protection. These words, which although uttered as a criticism portrayed a view that the purpose of such disclosure was to provide information which would protect shareholders, bearing a resemblance to SAC 2 where the objective of financial reporting is defined as;

...providing information to meet the common information needs of users who are unable to command the preparation of reports tailored to their particular information needs. These users must rely on the information communicated to them by the reporting entity (CPA 1995, 51).

Finally, in 1879, a Companies Act was passed making financial disclosure compulsory. The question was, whether or not the act introduced legislation that was sought after for so many years. Upon closer examination it is evident that the legislation pertaining to the balance sheet was only applicable to those balance sheets presented at the annual general meeting. With no clause requiring that a balance sheet be produced and disclosed for the meeting, optional disclosure once again prevailed (Hein 1978, 199). Furthermore the auditing requirements for joint stock committees was omitted with the act only requiring banks to audit their accounts (Economist 1879, 936).
THE NEED FOR DISCLOSURE DEMANDED

By the close of the 1880’s, the need for reliable accounting information was no longer questioned, but demanded (Littleton and Yamey 1978, 369). With some fifteen thousand companies registered during that decade alone, only eleven thousand of these companies were thought to be actually carrying on a business (Chapman 1968, 202). With the realisation that something had to be done, several Bills similar to that of 1877 were proposed to Parliament. Stressing the importance of protecting interested parties by providing information, the last act ensured that interested parties were defined as not just shareholders but creditors as well. Furthermore a time limit of three months was specified between the actual making of the statements and their presentation at the annual general meeting (BPP 1888b, 790). None of these Bills submitted to Parliament carried legislative status (Hein 1978, 199).

Upholding the long standing tradition of appointing a select committee to investigate joint stock companies, the Board of Trade commissioned the Davey Committee, which in turn issued the Board with a report entitled To inquire what amendments were necessary in the Acts relating to joint stock companies incorporated with limited liability (BPP 1885, 157). With evidence being heard from key witnesses including members from the Chamber of Commerce and the registrar of joint stock companies, the call for compulsory publication of the balance sheet was louder than ever.
Upon conclusion of its inquiry, the Committee's report recommended that legislation be enacted requiring Joint Stock Companies to distribute to shareholders a copy of the balance sheet, for which no form was prescribed (Hein 1978, 202). Rejecting any requirements for the compulsory registration of the balance sheet with the Registrar of Joint Stock Companies, the Davey Committee argued that the primary duty or obligation of the directors was towards the shareholders not the public (BPP 1895, xvi). The conclusions put forward by the Davey Committee claimed that directors had a duty to the shareholder, in indicating the true financial position of the company. Emphasising this agency relationship between the directors and shareholders, the committee's conclusion had quashed existing claims that the shareholder bore a responsibility to ensure that the balance sheet was clear and explicit, a duty which was often overlooked (Accountant 1895, 751). Looked upon as a critical point in disclosure since 1856, the Bill put before Parliament by the Davey Committee, was also rejected (Hein 1978, 204).

The issue of a director's duty and obligation to the shareholder was further developed in 1898, when directors were considered liable if misleading information was disclosed. Within a short period of time, the directors position had changed, to a practice which not only forms an integral part of present day disclosure, but which also saw directors from 1899 onwards become more accountable to those relying on the financial information disclosed by directors. A duty which, according to SAC 2, is achieved through general purpose financial reporting (CPA 1995, 54).
THE FORMATIVE YEARS OF FINANCIAL REPORTING

Not only marking the beginning of a new century, but also marking the beginning of what is referred to as the formative years of financial reporting (Lee 1979, 23), an amendment Bill put before Parliament was finally given legal status in February of 1900, to become known as the Companies Act 1900. With legal status finally granted, the position of disclosure, although improved, was now achieved in an indirect manner. No clause within the act actually set out what was to be disclosed, rather disclosure was inferred, with the act requiring that the auditors sign a certificate at the foot of the balance sheet, thereby indirectly requiring the preparation of a balance sheet (Lee 1979, 24).

The situation changed in 1907, with the passing of yet another Companies Act. With a more present day position of disclosure, the act required that all companies excluding private companies file an audited balance sheet with the registrar (Lee 1979, 24). The objective of the 1907 Companies Act, which was to later become the 1908 Companies Act, and remain for over twenty years, was "...the affording of information to all who may seek it" (BPP 1907, I). However the affording of information meant that in order for a shareholder to receive any information, a cost not exceeding sixpence, was applied (Hein 1978, 204). This practice of investing money in a company, only to be charged a further fee in order to receive any information pertaining to the company, was, by the early 1920's, considered inappropriate. This, coupled with the fact that many companies fulfilled the requirements of the act by filing the same balance sheet year after year, brought

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acknowledgment that amendments were necessary and, therefore, the Greene Committee was formed.

Finally making the existing legislation specific, the Greene Committee gave rise to the 1929 Companies Act which attempted to bring to an end the vagueness and uncertainty that accompanied financial reporting (Accountant 1929). Requiring all companies to keep proper books, section forty of the act ignored precedence and put forth a legislative form of balance sheet, prescribing both the form and content. The prescribed form saw items in the balance sheet segregated under certain headings and all information in regards to the assets, liabilities and share capital disclosed (BPP 1929-30, 36). Outlining what was to be included in a balance sheet and ensuring that all who were to attend the annual general meeting received a copy prior to the meeting, the position of the balance sheet was greatly improved (The Economist 1928).

IN THE SHADOWS

Reading this paper, one may infer that the profit and loss statement and its development has virtually been ignored. Truth rings in this statement, the reason being that legislation itself chose to ignore the profit and loss statement. The initial 1844 Joint Stock Companies Act had called for the preparation and presentation of a half yearly income statement, a request that was excluded from the act prior to its proclamation (Rose 1865, 20). For just under a century, the profit and loss statement would remain in the shadows of the balance sheet, with only slight
reference to it being made, in order to remind one of its existence. Most Bills proposed to Parliament ignored the profit and loss statement completely, and those which required its preparation such as the 1884 Bill were rejected (Kurtovic 1996, 48).

The major break through did not come till the late 1920’s when the attitude towards the profit and loss statement began to change and the importance of its preparation was acknowledged (Brown 1971, 36). The extent to which legislation reflected the changing views was minimal. Apart from recognising that a profit and loss statement existed, the 1929 Companies Act did very little to improve the legislative status of this statement. There were no requirements to have the profit and loss statement registered or to be issued to shareholders, accordingly the statement was not required to be audited and the only time the profit and loss statement entered the disclosure equation was when it was to be presented to the annual general meeting, therefore remaining a confidential statement (The Economist 1928).

THE END OF THE FORMATIVE YEARS

The end of the formative years did not see any change in the lack of success that legislation had become accustomed to. Barely a year after the 1929 Companies Act, criticism was again heard which was followed by a campaign for reform (Bircher 1988). This constant campaigning saw the 1929 Act strengthened by the passing of the 1948 Companies Act, which was a direct result of the Cohen committee, set up in 1943 to investigate the weaknesses of the preceding act.
Looking after the interests of not just the shareholders but the public as a whole (Bircher 1991, 30), the Cohen Committee acknowledged the influence that companies had on the community. No longer were companies considered to be "little republics", instead the influence that these "little republics" had on society was recognised, and the financial reports were to portray this.

Almost half a century later, the situation is no different, and the influence which corporations have on society is recognised. For example, the former chief judge of the New South Wales Supreme Court, Justice Rogers (1991, 1), had observed that:

...company directors may through their actions, their behaviour, and their standards of morality, destroy the health of an economy and of a community for a decade.

Also upholding this view, and like the Cohen Committee acknowledging that corporations are not "little republics", Statement of Accounting Concept number two extends management’s accountability to the general public:

...because of the influence reporting entities exert on members of the community at both the microeconomic and macroeconomic levels, they are accountable to the public at large (CPA 1995, 52).

Referred to as "... one of the milestones in the modern history of the development of financial reporting" (Bircher 1988, 107), the requirements of the 1948 Companies Act had the affect of drastically changing accounting practice as it was known. The compulsory preparation and presentation of a true and fair balance sheet and profit and loss statements was required (BPP 1945), words which to this
day haunt financial reporting. Defining the function of a balance sheet as “...a historical document”, the 1948 Companies Act required not only a detailed disclosure and issuance of the audited balance sheet as per schedule eight, but also the disclosure and issuance of the detailed profit and loss statement, and any movements to and from reserves (Bircher 1988, 107).

Placing a heavy emphasis on the need for disclosing financial information, the 1948 Companies Act was intent to ensure that the statements prepared would accurately disclose the financial position of a company, “...disclose with reasonable accuracy the financial position of that business” (Bircher 1991, 313). Providing, that in circumstances where the books of account are held outside of Great Britain, the 1948 Companies Act required directors to ensure that copies were sent to and held in Great Britain allowing for the inspection of and determination of the companies financial position. This need to disclose information on the financial position of a company is today reflected in Statement of Accounting Concept number two. According to SAC 2, the financial position of a company is relevant to the information needs of users, as it is through a company’s financial position that decisions in relation to the allocation of scarce resources can be made (CPA 1995, 52). Thus the need to provide information to users as to a company’s financial position which is today evident in SAC 2 was also prominent in the requirements of the 1948 Company’s Act.
THE UNITED STATES AND ITS RIDING OF THE CAROUSAL

Like Britain, the United States, too, encountered problems of their own, when it came to regulating the disclosure of financial information. With the accounting profession and community still recovering from economic catastrophes of the 1929 Stock Market crash and the great depression, the need for accounting standards to regulate the accounting profession became evident. The search was on for a solution which would make financial reports adequate for decision making by users. As in Britain, the term users, referred to shareholders and creditors, and it was not until 1966, when the American Accounting Association prepared *A Statement Of Basic Accounting Theory* in which the users of financial information was extended to various groups of users which included, Government units and the Stock Exchange (AAA 1966).

After many studies and monographs being undertaken throughout the United States from the early 1930’s, the final phase in the search for a body of doctrine was thought to lie with the findings of the Trueblood Report. Issued by the Trueblood committee, commissioned by the American Accounting Institute of Certified Public Accountants, along side the Wheat committee, the aim of the Trueblood committee was to define the objective of financial reporting.

The study which identified twelve financial accounting objectives, seemed to have neatly summed up what took a century to develop in Britain. The first objective put forward by the Trueblood Committee acknowledged that financial statements were
used to communicate accounting information, for the purpose of decision making. Therefore the basic objective of financial statements, according to the Trueblood report, was the providing of information useful for economic decision making (Trueblood 1974).

Following from objective one, objectives two through to six expanded on the need to provide information useful for decision making. Focus was centred on the users of financial statements, their information needs and how these needs could be adequately met. Like the 1948 Companies Act, the Trueblood report also emphasised the need to disclose financial information to all users including the wider public, acknowledging that companies were not isolated from the rest of society. In addition to this, the report also stated that financial information should serve those whose ability to obtain such information was limited, but who relied on the information contained in the statements. Echoing the 1844 Joint Stock Companies Act requirement to make available financial information to all interested parties. Objectives seven through to ten were general descriptions of the financial statements which were seen as appropriate in meeting the objective of general purpose financial statements (Trueblood 1974).

As a result of the Wheat Committee’s investigations, commissioned at the same time as the Trueblood committee, the Financial Accounting Standards Board (FASB), was set up, in search of a body of doctrine, the accounting principles which would bring uniformity to financial reporting (Chang 1985). In 1973, the
search for this body of doctrine, for a unique body of knowledge was thought to have ended when work on the conceptual framework began.

Not long after the introduction of the FASB, it was realised that the objectives put forward by the Trueblood committee could in fact assist the Financial Accounting Standards Board in their search for accounting principles, influencing greatly the topics chosen by the FASB (Burns 1974). Heavy emphasis on the objectives of the Trueblood report, meant that, although there were some differences, very little divergence was evident (Burton et al 1981, 1-7), and the influence the Trueblood report had on the conceptual framework realised once Statement Of Financial Accounting Concepts Number One (SFAC1), entitled The Objectives Of Financial Statements, was issued. Echoing the Trueblood report, which had stated that "...the basic objective of financial statements is to provide information useful for making economic decisions" (Trueblood 1974, 5), SFAC1 stated that,

...financial reporting should provide information that is useful to present and potential investors and creditors as well as other users in making investment, credit and other similar decisions...The objective of general purpose external financial reporting stems from the needs of those external users who lack the authority to prescribe the financial information they want and therefore must use the information that management communicates (Nair and Rittenberg 1990, 27).

With SFAC1 contributing no originality, instead adopting what the Trueblood committee had already put forward, the continual circular motion that was played for years in Britain was now being played in the United States. With continual so called development, very little actual progress seemed to occur, with the end result
usually having the same impact as the beginning. Contrary to the claims that the conceptual framework is a child of the sixties (Gower 1992, 6), the conceptual framework, it would seem, was actually a child of the nineteenth century. Incorporating much of past legislation, dating back to Gladstone’s era right through to the Trueblood report.

AUSTRALIA: ITS CAROUSAL RIDE

In Australia the process was and is no different. Today’s objective of general purpose financial reporting under the conceptual framework seems to be borrowed from what was developed in the United States, who in turn borrowed from Britain. Up until the 1960’s, Australian law tended to be derived from the law of England. Keeping in line with the tradition of harmonisation between countries, major developments such as the 1856 Companies Act were adopted by Australia. There was, however, one exception. The exception was in 1895 when the Davey Committee put forward their report. Whilst Britain experienced a lag of over a decade before the recommendations of the Davey Committee were enacted, Victoria, recovering from the collapse of the Land Boom, decided to adopt the recommendations, leading to the 1896 Victorian Companies Act (Parker 1986, 86), causing Australian company law to be ahead of English law by about ten years (BPP 1907).

The Victorian Companies Act, 1896, required the keeping of proper books of account and the annual presentation to shareholders of an audited balance sheet
which was to be narrative form as specified in the Act. The sequence of items appearing in the balance sheet was also specified. Debtors were to be categorised and shown after deducting bad or doubtful debts expense. Other assets such as property and investments and liabilities were also to be reported by class. The legislation also required directors to certify that the balance sheet was "true and correct". Managers were required to make a statutory declaration to similar effect. The Act further provided for the appointment by public companies of a qualified auditor. Details of dealings between companies and their officers, advances to directors, in particular, were to be disclosed (Gibson 1971, 44). In adopting the recommendations of the Davey Committee the Government was trying to ensure that the catastrophic events of the boom were not repeated, and the evils of the past remedied (Victoria. Votes & Proceedings 1895, 3338).

This influence, however, began to sway after the 1960's. With the accounting profession involved in the regulatory process and the need for uniformity within accounting, Australia began to place heavy emphasis on accounting developments in the United States. An emphasis which is evident in the conceptual framework which the Australian Accounting Research Foundation (AARF) began to develop in the late 1980's (Gore 1992, 124).

Upon closer examination, it is evident that the structure of the Australian conceptual framework has striking similarities to the conceptual framework developed in the United States (Gore 1992, 125). For instance, both Australia and the United States share the same need and purpose of a conceptual framework and
the concept statements. According to the FASB, the financial accounting concept statements (SFAC) produced will “…guide the Board in developing sound accounting principles” (FASB 1983, 1). Whilst the AARF sees the purpose of statement of accounting concepts(SAC) as “…a guide to the Boards when developing and reviewing accounting standards” (AARF 1995, 4).

The purpose for which a conceptual framework is developed is not the only similarity shared by the two conceptual frameworks. The objective of general purpose financial reporting is another shared characteristic, with both countries placing heavy emphasis on decision usefulness (Gore 1992, 126). In issuing Statement of Financial Accounting Concept number one, (SFAC 1), Objectives of financial reporting by Business Enterprise in 1978, the FASB had stated that;

The objectives stem primarily from the needs of external users who lack the authority to prescribe the information they want and must rely on information management communicates to them (FASB 1983, 1).

In addition to this the FASB had stated that the objectives of financial reporting are “… directed towards the common interests of many users” (FASB 1983, 1). A decade after financial accounting concept number one was issued by the FASB, the Australian Accounting Research Foundation issued Statement of Accounting Concept number two (SAC 2), The Objective of General Purpose Financial Reporting, which stated that the objective of general purpose financial reporting was to;
...provide information to meet the common information needs of users who are unable to command the preparation of reports tailored to their particular information needs. These users must rely on the information communicated to them by the reporting entity (CPA 1995, 51).

Coincidently, the objective put forward for general purpose financial reporting by the AARF, bore striking similarities to that which was earlier published by the FASB.

Accountability is another issue in which similarities are evident between today's conceptual framework and legislation passed in 1844. The advent of accounting and audit provisions in corporate legislation is clearly associated with management's accountability for their actions to shareholders and creditors. The need for legislative intervention has arisen from the separation of management from ownership (Stamp 1969, 32; Chen 1975, 538), and this need for accountability is today evident in the conceptual framework, as it was in 1844. According to SAC 2, adherence to the objective of general purpose financial reporting, is seen as a means through which managements duty of accountability is discharged. The need to make management and other governing bodies accountable was argued to be a strong characteristic of the 1844 Joint Stock Companies Act. Not only did the recommendations try to ensure that investors and creditors were provided with sufficient information, an attempt was also made to make directors and management accountable for their actions;
Periodical accounts, if honestly made and fairly audited, cannot fail to excite attention to the real state of a concern; and by means of improved remedies, parties to mismanagement may be made more amenable for acts of fraud and illegality (BPP 1844b, 5)

Furthermore, it was thought;

...probably the greatest benefit in this direction will be produced by enabling the sharebrokers and other persons professionally employed in making investments of this kind to learn more easily and accurately the real nature of these companies; so that, at least, the ignorant may not be so much misled (BPP 1844b, 6).

Today, Statement of Accounting Concept number two, links manageability with the objective of general purpose financial reporting;

General purpose financial reporting also provides a mechanism to enable managements and governing bodies to discharge their accountability. Managements and governing bodies are accountable to those who provide resources to the entity for planning and controlling the operations of the entity (CPA 1995, 52).

Clearly, the similarities above, indicate that accountability and the means through which management and governing bodies discharge their accountability is not unique to SAC 2, but rather reflects what has been sought after for over a century.

In Australia the concept statements developed do not override accounting standards nor do they have any legal status under the corporations law (AARF 1995, 6). This situation is not unique to Australia and it is often argued that to change the status of concept statements in Australia would mean that we would be out of step with
overseas developments (Sadhu and Langfield-Smith 1993, 38), a movement the accounting profession is not eager to take.

Whilst similarities exist between the Australian conceptual framework and that developed by the FASB, it would seem that the Australian Accounting Research Foundation has attempted to amend the FASB conceptual framework, in a bid to make it more suitable to our own conditions. For example the Australian conceptual framework is seen as having broadened the fundamental objective of financial reporting so to encompass the function of control, an issue which such authoritative bodies as the FASB have omitted (Barton 1983, 6).

The need to rely on developments overseas, has been highlighted through the years by the AARF, who had stated in Policy Statement number five, entitled, The Nature and Purpose of Statement of Accounting Concepts, that;

The Boards are committed to increasing the international comparability of financial reporting. This goal can be achieved more efficiently if standard setters develop accounting standards using consistent conceptual frameworks. The explicit conceptual frameworks in Australia and in overseas jurisdictions are highly consistent. The Boards support the reduction of the limited differences between conceptual frameworks, and to this end, will explore with overseas standard setters opportunities for further harmonisation of conceptual frameworks (AARF & 1995, 7).

However, whilst acknowledging this need, the AARF had at the same time recognised that there is also a need to ensure that the conceptual framework produced, be suitable to the needs of the Australian business environment.
Conceding that the objectives of financial reporting need not be accepted universally, as it was accepted that;

A conceptual framework based on the specification of particular objectives and it shows how these objectives can be achieved in a particular business environment (Barton 11982, 2).

Despite the recent emphasis on American legislation, the influence which England has had over Australian company law must not be neglected. After all, it was England that brought Australia to the point where the United States took over. One must remember that up until the 1960's Australia had focused all attention on English law, after which focus had shifted to and remained with the United States.

Although not word for word, the objective of financial reporting under SAC2 contains uncanny similarities to the objective of financial reporting in SFAC1. Both of which made reference to the need to provide information to users of financial reports, a need which has been acknowledged for well over a century.

CONCLUSION

Just as was realised in Britain, both the United States and Australia realised the importance of disclosure and financial reporting. With financial reporting in Australia today governed by the conceptual framework, the original aim of this paper was to establish and understand how, as a profession, we have arrived to the position of SAC 2, and to substantiate the claim that the accounting profession has
failed to develop, quashing claims that the conceptual framework is a unique body of knowledge.

A detailed examination of English legislation has shown that from as early as 1844 continual efforts were made to introduce in Britain, legislation which would make financial reporting compulsory. Gradually leaving behind the philosophy of laissez-faire, the need to protect shareholders and provide information to all interested parties had gained importance and proved to be the foundation for much of which was later introduced in the United States and Australia. Throughout the nineteenth century, however, legislation pertaining to company law in Britain continued to move in a circular process. Despite numerous Company Acts being passed, much of what was contained in these acts was a slightly modified version of its predecessor.

Earlier this century, the United States too was affected by negative behaviour pertaining to companies. In a bid to bring uniformity to accounting, the accounting profession too began its own search for a solution. The outcome was the conceptual framework. This “unique” body of knowledge seemed not to be so unique after all. Publicly declaring that the objectives of financial reporting contained in the Trueblood report could assist the FASB in the conceptual framework, the objective put forward by SFAC1 summed objectives one through to six of the Trueblood report. The idea of financial reporting and the emphasised need to provide financial information to interested parties became evident in the United States after such acknowledgment was made in Britain.
Despite the overwhelming criticism which the FASB faced as a result of the conceptual framework (Gore 1992, 1), less than a decade after the AARF adopted the already borrowed characteristics of the FASB’s conceptual framework, and began to set up a conceptual framework of its own. With striking resemblance between SFAC1 *Objectives of Financial Statements* and SAC2, *The Objectives of General Purpose Financial Reporting*, it is difficult to think of these similarities as coincidence. The groundbreaking development of the conceptual framework, it would seem, was little more than a blatant act of plagiarism.
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