

HISTORICAL DEVELOPMENTS IN  
THE ACCOUNTANCY PROFESSION,  
FINANCIAL REPORTING, AND  
ACCOUNTING THEORY

# STUDIES IN THE DEVELOPMENT OF ACCOUNTING THOUGHT

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STUDIES IN THE DEVELOPMENT OF  
ACCOUNTING THOUGHT VOLUME 25

**HISTORICAL  
DEVELOPMENTS IN  
THE ACCOUNTANCY  
PROFESSION, FINANCIAL  
REPORTING, AND  
ACCOUNTING THEORY**

BY

**C. RICHARD BAKER**

*Adelphi University, USA*

&

**MARTIN E. PERSSON**

*University of Illinois at Urbana-Champaign, USA*



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## ABOUT THE AUTHORS

**C. Richard Baker** Since teaching his first accounting course in 1972, Professor Baker has taught more than 1,000 students, many of whom have gone on to become successful Certified Public Accountants and Business Executives. His areas of teaching and research interest are focused on the regulation, disciplinary practices, ethics and legal liability of the Public Accounting Profession. He has published over 100 articles in academic and professional journals, as well as chapters in various academic books dealing with professional accounting topics. He serves on the editorial boards of several academic journals, and he is an Active Member of Professional Accounting and Academic Associations in the United States and other countries.

**Martin E. Persson** Martin E. Persson is an Assistant Professor of Accountancy at Gies College of Business, University of Illinois at Urbana-Champaign. His research focuses on the development of accounting thought, with a particular interest in people, ideas, and institutions from the 1900s, as well as classical accounting theory and measurement issues. His research has been published in Emerald's *Studies in Development of Accounting Thought* book series, Routledge's *New Works in Accounting History* book series, and journals such as *Abacus*, *Accounting Horizons*, *Accounting Historians Journal*, *Accounting History*, and *Meditari Accountancy Research*. He currently serves as the Associate Editor of the *Accounting Historians Journal*, the official bibliographer of *Accounting History Review*, and on several editorial boards. His research has received numerous awards, including a grant from the Canadian Social Sciences and Humanities Research Council.

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# FOREWORD

There is inevitably, and in every field, a gap in time between the development of an art, the development of theoretical knowledge and the impact of that knowledge on its related art or practice .... These gaps are no cause for alarm among those who appreciate the halting, vagrant and devious progress from ... art, through rationalization, to systematic knowledge and ultimately to ... practice .... To put things in perspective, may I remind you of some of the incidents in the history of science and technology ... [T]he following periods elapsed between the conception of the basic idea and its function – photography, 56 years; television, 63 years; antibiotics, 30 years; zip fasteners, 30 years; instant coffee, 22 years. In the light of this, it is perhaps understandable that the emergence of an agreed, serviceable form of accounting ... cannot be expected to occur speedily .... (Chambers, 1980, pp. 167–168)

The Australian academic R. J. Chambers offered the comment above when reflecting on the lack of acceptance of his proposal to replace historical cost with exit price measurements as the basis for financial reporting in the 1960s (for more about this proposal and Chambers, see Clarke, Dean, & Persson, 2019). This edited volume strikes at the heart of the “vagrant and devious progress” of the development of a more “serviceable form of accounting,” and it is part of a larger research program to document and preserve the intellectual heritage of our discipline. This research program, which has found a home in Emerald’s *Studies in the Development of Accounting Thought* book series, has explored a potpourri of historical subjects, such as the contributions of some of our disciplines greatest thinkers (e.g., Persson, 2019; Williams & Lawrence, 2018; Zeff, 2000); the accounting activities of some of our most recognizable companies (e.g., Lazdowski’s (2020) history of Ford Motor Company); and the role of our most influential institutions (e.g., Chenok & Snyder’s (2000) recent history of the American Institute of Certified Public Accountants).

The present edited volume follows the tradition of earlier contributions focusing on a period in the development of accounting thought (e.g., Moehrle & Reynolds-Moehrle’s (2013) history of accounting research before and after Sarbanes–Oxley Act). The volume contains a total of 10 chapters divided evenly into two thematic sections: “Financial Reporting and the Accountancy Profession” and “Accounting Measurements and Theory.” The chapters cover a period that reaches as far and wide back as the Classical Period in Ancient Greece (i.e., Chapter 8 on the concept of prudence in accounting), while many of the chapters focus on events from the Contemporary Period and the United States (e.g., Chapters 7, 9, and 10). Each chapter in the two sections is organized with this chronology in mind, but the chapters are otherwise freestanding and can be read either as a coherent whole or independently.

The thematic Section 1 covers the developments in accounting thought related to financial reporting and the accountancy profession. Chapter 1 presents a 200-year comparative history of the British and French accountancy profession,

drawing on insights from institutional logics and the sociology of professions literature (e.g., Abbott, 1988; Larson, 1977; Powell & DiMaggio, 1991). Chapter 2 examines the evolution of the American standard audit report over the past 150 years. Chapter 3 examines the development of financial reporting from the onset of the twentieth century and up until the creation of the American Institute of Accountants' Committee on Accounting Procedures, which was the first private sector organization to set accounting standards in the United States. Chapters 4 and 5 pick up on more recent historical developments. One considers the influence of accounting theory on the development of the Financial Accounting Standards Board's conceptual framework. The other considers (and argues for) the continued importance of annual financial statements in corporate governance.

The thematic Section 2 covers the developments in accounting thought related to accounting measurements and theory. Chapter 6 re-examines the emergence and subsequent split between positivist and critical accounting research through the lens of Foucauldian genealogy (for more about Foucault's impact on accounting research, see Gendron & Baker, 2005). Contrasting the approaches of the Financial Accounting Standards Board and the International Accounting Standards Board, the Chapter 7 compares a standard-setting process based on rules versus one based on guiding principles. Chapter 8 returns to the topic of the fourth chapter, considering the role of prudence in the IASB's version of the conceptual framework, adopting various perspectives grounded in philosophy, legal theory, and economics. The last two chapters return to the topic of financial reporting from the third chapter, drawing on the works of some of our most prominent a priori accounting theorists, such as Robert Sterling's *Theory of the Measurement of Enterprise Income* (1970) and Edgar Edwards and Philip Bell's *The Theory and Measurement of Business Income* (1961).<sup>1</sup> The focus here is on the historical development of accounting measurements in academia and among standard setters, and the latter's failure to adapt financial reporting to account for an ever-increasing number of intangible assets such as brand value.

A vast majority of the material presented in this volume originated from one of its editors, C. Richard Baker, who wrote the initial drafts over several years.<sup>2</sup> Baker received his Ph.D. in Accounting from the University of California, Los Angeles, in 1975 and has since published over a hundred articles on accounting history, informed by a range of traditional and critical theories. He has also published several books and continues to serve on numerous editorial boards. Baker's pursuit of accounting history stands in contrast to most of his peers from the period, as activities at the Universities of California Berkeley, Chicago, and Rochester had brought about an era of capital market research that has sustained to the present day (Cushing, 1989; Mouck, 1993; Wells, 1976). This era marked a shift in the goal of accounting research, from considerations of its history, intellectual underpinnings, and function, to the relation between accounting numbers from financial statements and share-price data, using new methods from financial economics (for more about this transformation and Baker's experience, see Chapter 5 of the present volume). In turn, this shift is what has made the preservation of our intellectual heritage and the present volume even more prescient.

I have a personal connection to Richard Baker, who I first met as a young doctoral student from London, UK, in 2012. At the time, Yves Gendron had provided me with a scholarship to visit Quebec, Canada, for one of the Alternative Accounts Conference's first iterations, which was then held at Université Laval. Baker made a strong impression and, unbeknown to him, reinforced my choice of pursuing accounting history. Therefore, I am all the more pleased to have the opportunity to put together this volume on the development of accounting thought with him.

As mentioned at the beginning of this introduction, this volume does not attempt to offer a comprehensive history of accounting (for a couple of notable such attempts, see Brown, 1905; Previts & Merino, 1998; Vangermeersch & Chatfield, 1996). Instead, it attempts to pick up on various “vagrant” and understudied threads of intellectual developments in accounting practice and research over a time-period of several hundred years. And, although Chambers' search for a more “serviceable form of accounting” is still ongoing, we hope that the present volume will contribute to this important journey, through its careful documentation of where we have been and with reasoned thought as to where we are going.

Martin E. Persson  
Department of Accountancy  
Gies College of Business  
University of Illinois at Urbana–Champaign  
April 2021

## NOTES

1. For more about the a priori period, see Gaffikin (1988) and Nelson (1973).
2. Earlier versions of three of the manuscripts, Chapters 2, 4, and 5, have previously been published in the *Accounting Historians Journal* and *Accounting History*. Further reference to these articles is given in footnotes at the beginning of those chapters, and we are grateful for the permission to republish them here.

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# ACKNOWLEDGMENTS

It is a great pleasure to be the Joint Editor of this collection of C. Richard Baker's unpublished manuscripts. The journey to compile Baker's unpublished material into an edited volume began in 2019, and several individuals and organizations have assisted in its completion. I particularly want to thank Gary Previts for accepting the manuscript for publication in Emerald's Studies in the Development of Accounting Thought series. The series has and continues to serve as a bulwark to document and preserve our intellectual heritage. I would also like to thank SAGE Publishing and the American Accounting Association for granting the copyright to reproduce three previously published manuscripts as chapters in this edited volume.

Martin E. Persson  
Department of Accountancy  
Gies College of Business  
University of Illinois at Urbana–Champaign  
April 2021

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# SECTION 1

## FINANCIAL REPORTING AND THE ACCOUNTANCY PROFESSION

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# CHAPTER 1

## CONTRASTING INSTITUTIONAL LOGICS: HISTORICAL DEVELOPMENT OF THE PUBLIC ACCOUNTANCY PROFESSIONS IN THE UNITED KINGDOM AND FRANCE

### ABSTRACT

*The development of the public accountancy profession in the last 200 years has increased the demand for the labor of professional accountants and enhanced the role and status of the professional public account. This increase in both the demand for the labor of professional accountants and for the professional services, which professional accountants provide, has resulted from the growth of capitalist enterprises, as well as institutional work on the part of members of the organized public accountancy profession. The objective of this chapter is to trace the historical development of the public accountancy professions in the United Kingdom and in France in response to contrasting institutional logics in these two countries. While legal requirements for external audits of company financial statements provided the basis for the development of the public accountancy profession as early as the end of the eighteenth century, differences in institutional logics, including differing conceptions of the relationship between individuals and the state, led to differences in the development of the public accountancy professions in the two countries. The primary argument of this chapter is that contrasting institutional logics have influenced the history*

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*of the public accountancy profession, which has evolved into one of the key regulatory structures of modern capitalism.*

## INTRODUCTION

An “institutional logic” is a core concept in sociological theory. An institutional logic involves the study of how broad belief systems shape the cognition and behavior of organizational actors (Friedland & Alford, 1991). Powell and DiMaggio (1991) defined an institution as

[...] a supraorganisational pattern of activity by which individuals and organizations produce and reproduce their material subsistence and organize time and space. Institutions are also symbolic systems, ways of ordering reality, thereby rendering experience of time and space meaningful.

Thornton and Ocasio (1999, p. 804) define an institutional logic as

[...] the socially constructed, historical patterns of material practices, assumptions, values, beliefs, and rules by which individuals produce and reproduce their material subsistence, organize time and space, and provide meaning to their social reality.

The unifying theme of this chapter is that contrasting institutional logics, based upon differing conceptions of the relationship between the individual and the state, has shaped the development of the public accountancy profession from the late eighteenth century onward. One important difference among institutional logics is the conception of the individual’s role in relation to the state. Individualism has been more highly regarded in the United Kingdom than in certain other countries. Consequently, the role of the state in the regulation of the public accountancy profession in the United Kingdom was relatively marginal until well into the twentieth century. The requirement for external audits of company financial statements was initially included in the United Kingdom Companies Acts in the mid-nineteenth century as a response to railroad company frauds, but these requirements were later removed. Thereafter, and up until the mid-twentieth century, the British state had very little involvement in the institutional logics which pertained to the regulation of public accountancy, leaving such matters to professional institutes of practicing accountants (Anderson, Edwards, & Chandler, 2005). This *laissez-faire* institutional logic, not surprisingly, led to the proliferation of professional bodies of professional accountants in competition with each other (Edwards, Anderson, & Matthews, 1997).

British individualistic traditions were not similarly embraced in France or other parts of Continental Europe during either the *Ancien Régime* or republican periods. In this chapter, France serves as a proxy for continental (i.e., Roman law) countries, in contrast to more common-law approaches such as those of Great Britain and its Commonwealth. The Roman civil law tradition led to an institutional logic in which the relationship between the individual and the state was more precisely defined. In France, the regulation of commercial accounting practices commenced as early as the seventeenth century under Louis XIV (Lodge, 1931).

Beginning in the mid-nineteenth century, the gradual removal of restrictions against the formation of limited liability companies, and other positive acts on the part of the state (Braudel, 1992, p. 24) in both Britain and France, provided linkages between political rationalities, which favored economic liberalism, and legal technologies, which facilitated capital formation (Miller, 1990, p. 315). The emergence of public accountancy as an important regulatory structure of capitalism can therefore be traced, at least in part, to the increased use of limited liability companies as a principal form of the capitalist enterprise (Micklethwait & Wooldridge, 2003, p. 50).

In this chapter, we argue that historical factors, which led to differences in financial reporting systems (e.g., Nobes, 1983, 1992; Persson & Napier, 2018), also led to different institutional logics related to the role and status of the public accountancy profession in different countries. Individual shareholders have been the traditional providers of capital in the United Kingdom. Even prior to any involvement by the British state in the regulation of public accountancy, shareholders in Britain demanded the issuance of audited financial statements (Edwards et al., 1997, p. 2); as a result, the public accountancy profession in the United Kingdom developed through individual professional partnerships and recognized professional bodies.

The experience in France was more mixed, with historical periods during which the French state encouraged capitalist development and periods in which the state nationalized major enterprises. Consequently, the regulation of the public accountancy profession in France developed primarily through legislation and government decrees, resulting in institutional logics in which public accountants functioned, at least in part, as agents of the French state in the regulation of capitalist activity.

The remainder of this chapter is organized as follows. Section 1 reviews the prior literature in the sociology of professions literature and the literature in comparative financial accounting systems with respect to the institutional logics that pertain to the development and regulation of the public accountancy profession. Sections 2 and 3 describe the development of the public accountancy profession in the United Kingdom and France, respectively. A discussion and summary conclude the chapter in the Section 4.

## **REVIEW OF PRIOR LITERATURE**

The sociology of professions literature has defined the characteristics, nature, and functions of professional activity (e.g., Abbott, 1983, 1988; Carr-Saunders & Wilson, 1933; Etzioni, 1969; Larson, 1977; Vollmer & Mills, 1966). One of the arguments of this literature is that the role and status of professions differ among countries, and that, in particular, there are institutional logics in code law countries (such as France), which specify the role of the state in the regulation of professional activity. The institutional logic regarding a higher expectation in code law countries pertaining to the regulation of professional activity derives from the fact that the state has often been instrumental in creating professions in such countries. Pursuant to the sociology of professions literature, we expect

to find differences between the United Kingdom and France with respect to the public accountancy profession, with the state having played a greater role in the regulation of the public accountancy profession in France.

Another strand of the sociology of professions literature has investigated distinctions between institutional logics pertaining to occupations and professions. Abbott (1988) has argued that the process of professionalization involves competition among occupational groups for the right to become recognized by the state as a profession and that professional recognition is typically achieved when the state grants recognition as a profession. Abbott (1988) indicates that no profession can remain completely free from external influences, particularly in the form of regulation by the state (p. 141). Following Abbott's theory of the system of professions, it can be argued that it is the legal designation of a monopoly in the practice of public accountancy that has led to the establishment of the accountancy profession. However, this argument may not be supported in the case of the United Kingdom, in that the legal requirement for statutory audits did not come into existence until the mid-twentieth century, while the accountancy profession existed in the United Kingdom from at least the late eighteenth century.

In contrast to Abbott, Larson (1977) envisioned professionalization as a process through which an occupational group achieves professional status by obtaining cognitive expertise in an area of practice. Larson's theory of professionalization concerns the ability of an occupational group to obtain a state-granted monopoly based on the recognition of its competence with respect to a body of knowledge that the profession controls through education and training programs (Edwards, Anderson, & Chandler, 2007). Larson's notion of a monopoly of competence is relevant to the development of the public accountancy profession in the United Kingdom.

A third question that arises in a historical analysis of the development of the public accountancy profession relates to the origins of the profession, which in turn relates back to the distinction between an occupation and a profession. Prior to the nineteenth century, public accountancy was not considered to be a profession. In effect, various groups of accountancy practitioners sought to achieve recognition as a profession in the emerging industrial economies of the early nineteenth century (Edwards et al., 2007). In the United Kingdom, the public accountancy profession developed through private sector accountancy bodies, which were created before the legal requirement to have company audits (Lee & Parker, 1979). Whereas these accountancy bodies were able to achieve recognition from the British Crown through royal charters, they were not formally regulated by the British state.

In France, the regulation of the public accountancy profession emerged originally through the appointment by royal edict of *inspecteurs* and *censeurs* as early as the seventeenth century. After the French Revolution, there was a period of liberalism during the nineteenth century, during which the French State had little involvement with the regulation of the public accountancy profession (Lemarchand, 1995). This period of liberalization persisted for most of the nineteenth century, but it was eventually replaced by increasing intervention by the French state in the regulation of capitalist activity (Dattin, 2017).

A fourth question that arises when discussing contrasting institutional logics in the historical development of the public accountancy profession concerns differences in financial accounting systems among countries. These differences are important because the primary subject matter of public accountancy pertains to the examination of company financial statements in relation to financial accounting norms and standards. A significant amount of prior literature has compared differences in financial accounting systems among countries (e.g., Bloom & Naciri, 1989; Nobes & Parker, 1995b). Nobes and Parker (1995b) maintain that two types of financial reporting systems have developed through time, the “micro/professional” system (Model A) and the “macro/uniform system” (Model D) (see Fig. 1). Nobes and Parker have used their classification scheme to categorize the financial reporting systems of the United Kingdom and France, among other countries (see Fig. 2).

Logic	Model A	B*	C*	Model D
1. Who provides finance?	Individual/institutional investors			Bank, state, and family
2. How are companies governed?	Managing directors			Supervisory board/state
3. What is the basis of the legal system?	Common law			Codified/ Roman
4. What is the role of taxation?	Little influence			High influence
5. Relationship between the profession and the state	Large, independent and powerful			Small and state-controlled

\* Models B and C represents degrees of models A and D, which represents the opposite ends of the spectrum of institutional logics presented in this chapter.

Fig. 1. Institutional Logics in the Regulatory Environment

Countries	Factors				
	1	2	3	4	5
United Kingdom	A	A	B	B	B
France	C	D	D	C	D

Fig. 2. Classification of Countries Based on Institutional Logics

Pursuant to the Nobes and Parker model, the United Kingdom stands at one end of the spectrum, with the classification of France in a more intermediate position. The differences between the financial accounting systems of countries can be traced to differences in institutional logics, including differences in legal systems; traditional sources of capital; roles played by banks; regulatory practices; corporate governance practices; and the impact on financial reporting of legislation regarding income taxation and dividend payments (e.g., Gray, 1988; Nobes, 1983; Perera, 1989). In summary, differences in the underlying historical

factors, which have led to differences in institutional logics as these relate to the development of financial accounting systems, have also led to differences in the regulation of the public accountancy profession. In the United Kingdom, the regulation of the public accountancy profession has been conducted primarily through private sector professional bodies. In contrast, the regulation of the public accountancy profession in France has been conducted through law and regulation.

## UNITED KINGDOM

There have been many historians who have examined the development of the public accountancy profession in the United Kingdom, including such authors as Kedslie (1990), Cornwell (1991, 1993), Walker (2004), Boys (1994, 2011), Maltby (1999), Edwards (2001, 2010), and Lee (2011), among others. Most of these authors have focused broadly on the development of the accountancy profession in the United Kingdom and not on the auditing profession as a distinct element of the accountancy profession. This is because, unlike France, there is no distinction in the United Kingdom between the accountancy and auditing professions. The remainder of this section reviews some of the findings of the prior literature.

### *Historical Background of Professional Accountancy in the United Kingdom*

Micklethwait and Wooldridge (2003, p. 20) indicate that the practice of public accountancy in Great Britain may be traceable to the rise of the joint-stock company during the reign of Elizabeth I. Dobija (2018) points to the separation of ownership and control in the East India Company as providing an impetus for the rise of auditing practices. However, audits of joint-stock companies during the sixteenth through eighteenth centuries were what may be referred to as “amateur” audits in which certain shareholders of the company were appointed to conduct audits on behalf of their fellow shareholders.

The development of the public accountancy profession appears to have emerged at a somewhat later point in British history, perhaps toward the end of the eighteenth century or early in the nineteenth century. It is important to point out, however, that there was little recognition of public accountancy as a profession in the late eighteenth century, and no distinction was made between accountancy and auditing; the services of accountancy and auditing being part of one occupational group. For example, based on an examination of trade directories, Edwards et al. (2007, p. 67) provide evidence regarding the number of “accomptants” or “accountants” offering services to the public in the larger English cities during the nineteenth century, with numbers ranging from 20 in the 1800s, to 301 in the 1830s, to 499 in the 1850s, to 1,248 in the 1870s. The listings in the trade directories often listed “accounting” rather than “auditing” services; thus, auditing was not distinguished as a separate aspect of public accountancy services. As Boys (1994, 2011) points out, there were practicing accountants and auditors in the United Kingdom during the early part of the nineteenth century, but these emerging professional accountants and auditors were not regulated by the British state.