論　説

The Development of Group Accounting in United Kingdom: The Essential Contribution of F.R.M. de Paula

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1. Introduction

It is now widely accepted that the development of consolidated accounts occurred at first in the United States and then followed by the United Kingdom. It seems true that some historical settings in the latter country gave rise to the delay in adopting that reporting procedure, and sometimes this story is described as " slow progress " [1]. But slow adoption might not necessarily be the same as being slow in progress. Each country may have its own historical background and it cannot always be correct that all countries are making their progresses toward the same direction.

The purpose of this paper is to try to show that the accountants in the United Kingdom had not followed the American practice blindly but forged their own way to solve the accounting problem for holding companies. This paper is especially focusing on the contribution of F.R.M. de Paula because his explanation to why he chose consolidated statements can be seen as the fusion of American consolidation practice and British accounting tradition which adhered to so-called legal balance sheet. To achieve the above objective, this paper examines the ideas advanced by UK accountants which attached

1) For example, see Edwards (1991, p.230.)

importance to parent-only statements and investigates how de Paula mixed that tradition to the preparation of consolidated statements.

2. UK Holding Companies and Their Accounting Problem

It is said that in both the United States and Britain, major merger movements came at almost precisely the same time: during a short period in the late 1880s- in Britain a little earlier than in the United States- and then during a longer period at the turn of the century, between 1897 and 1902 (Chandler, Jr., 1990: 287) [2]. Therefore, though it is said that the holding company never assumed the same significance in Europe as it did in the United States (Liefmann, 1932: 410), it surely emerged in the United Kingdom as well. And by 1907 several British firms had been organized as holding companies, with notable examples including the Nobel Dynamite Trust Co. (formed in 1886) and the English Sewing Cotton Company (formed in 1897) (Walker, 1978: 20)[3].

In parallel with the emergence of holding company, it can be said to be natural that financial frauds by using subsidiary companies began to be committed. For example, it is confirmed that in 1892 the collapse of the Liberator Permanent Benefit Building Society and others in the Balfour group was followed by revelations of substantial losses arising from speculative ventures carried out by two subsidiaries. Moreover, the end of the 1890 ' s mining boom led to the collapse in 1901 of the London and Globe Finance Corporation and other companies in the Whitaker Wright group and in this case again shareholders belatedly learnt of subsidiaries ' losses (Walker, 1978: 20). Indeed, it was gradually noticed that the possibility of inter-company transactions- that is, sale of the assets of one subsidiary to another subsidiary; the routing of profitable business to one subsidiary in preference to another; the concealment of losses or the creation of non-existent deficits, made possible an almost unlimited variation in the resulting income account (Berle & Means, 1932: 183). There must have been the same condition in UK as noted in Brooks (1933) that a " parent " company with a number of subsidiaries at its command could do

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2) It is important to note that the number of mergers in Britain was smaller , however, and on average they involved fewer firms(Chandler, Jr. 1990: 287).

3) Other famous examples are: J. & P. Coats, a merger in 1896 of four family thread-making companies which had been previously allied through a joint sales agency , The United Alkali Company formed in February 1891, and Metropolitan Amalgamated Railway Carriage & Wagon Company, a consolidation in 1902 of five producers of rolling stock and a maker of specialized tires and axles (Chandler, Jr. 1990: 289-290).

much to baffle the public as to its true state of prosperity (Brooks, 1933: xviii).

As evidence that the financial frauds practiced by holding companies had come to a grave matter at the time in the United Kingdom, it can be seen that as early as 1901 some articles appearing in the accounting magazine warned that holding companies could produce misleading profit information using its subsidiaries. For example, it was said that:

> It occurs to us that in some cases the entire income of a parent company might be derived from subsidiary companies, and in those cases an audit of the parent company's accounts would be singularly ineffective if it did not also contain some guarantee that the accounts of the various subsidiary companies were also correct. Of course, it might frequently be impracticable- or even undesirable- to employ the same auditor for all the various undertakings; but that does not do away with the need, in the interests of the parent company, for a full enquiry into what are then in effect, merely departmental accounts. (*The Accountant*, 8 June 1901: 665)

In the next section, the initial reaction of British accountants to the claims in these beginning years of twentieth century will be traced.

3. Amplification of Legal Accounts

In the United Kingdom, the popularity of holding companies was followed by an expanding literature on the accounting issues involved in handling inter-corporate shareholdings (Walker, 1978: 25). Among these literatures are *the Accountant*, 6 July 1901 and 2 November 1901, but the consistent treatment of inter-corporate shareholdings in holding companies ' accounts had not appeared in the standard accounting textbook until Dicksee (1909) which is said that " the first major attempt to develop a general framework for asset valuation " (Walker, 1978: 8). Though this practical manual for auditors was broadly read by both British and American professions, the contents concerning holding companies ' accounts were moderately inserted only in the American version whereas they were kept back and unwritten until 1924 in his home country's edition. In this paper, American version of his textbook will also be examined to clarify how British accountants reacted to the new accounting problem regarding to holding company organisation from the following two reasons: the writer had British background and each accountant in the both sides of the Atlantic Ocean must have been able to read both editions.

Dicksee noted as follows the necessity for discussion on the accounts of holding company [4]:

> The proper method of stating the accounts of corporations which are generally known as ’holding ’ companies has received considerable attention recently, because it is believed that the omission on the part of some corporations to take up the losses of subsidiary companies, when they have included among their own earnings all the profits, has resulted in erroneous opinions as to the actual net earnings of the corporations in question (Dicksee, 1909: 289).

Yet he gave way to Dickinson in detail saying that “ the opinion of A. Lowes Dickinson, F.C.A., C.P.A., on this subject, as reflected in his paper, read at the St. Louis Congress of Accountants, is of importance, as it is believed that the views there expressed represent the best accountancy practice ” . Then Dicksee referred to Dickinson (1904) and constructed a large part of the chapter by extracting Dickinson’s sentences. Dickinson was playing an active role in American accounting profession then, but he also was British accountant. This is why this paper can deal with his claims as a part of traditional accounting thought on holding companies ’ accounts in the United Kingdom. Dickinson is famous as a leading accountant who insisted on the preparation of consolidated statements in the early year and this opinion was advanced in the last two papers of “ three papers between 1904 and 1906 ” (Walker, 1978: 148) on this issue [5]. However, it is little known that, in Dickinson (1904), he embraced the idea that so-called equity method or its variation was appropriate by saying:

> It is clear that whatever the value of an investment in a corporation may be at a particular date, its value at any subsequent date (other thins being equal) must be greater or less by the amount of the Profits or Losses made during the intervening period …… On the general principle, therefore, that a Profit and Loss Account

4) It seems that what Dicksee thought most important was "the rule that the whole loss on operations of an underlying company must be taken up by the holding company" (Dicksee, 1909: 293-294).

5) They are referred to as Dickinson (1904), Dickinson (1905), and Dickinson (1906) in this paper.

should take into account all Profits or Losses resulting from the trading operations, but should no take into account the Profits or Losses arising from a revaluation of Capital Assets, it may eventually be held, on legal as well as on accounting principles, that the Statement of Earnings presented by a holding company is not correct unless it takes into account by way of either a reserve or a direct addition to or deduction from the capital value of the investment the Profit or Losses made in operating the subsidiary companies. (Dickinson, 1904: 190).

It is interesting that Dicksee chose Dickinson (1904) when bestowing consideration that he could have used any of “ three papers ” . All of these three discussions had been available to every British accountants [6] and Dicksee selected neither Dickinson (1905) nor Dickinson (1906), but copied down Dickinson (1904). This might make it possible to say that Dicksee implicitly agreed on Dickinson (1904) most of these three arguments and that the attention to a treatment which is similar to today ’ s equity method was the initial reaction by British accountants to the accounting problem of holding company organisation.

Moreover, in Dickinson (1906), he developed the idea which was described as an “ analysis of the investment account of the holding company ” (Dickinson, 1906: 490). It can be said that he persistently focused on the investment to subsidiary companies. It is clear that this persistency is closely related to the adoption of equity method. He argued:

In fact, it may be said that ・・・ the maintenance in the books of the holding company of the stocks of the subsidiary companies at original cost is not correct, for the reason that the directors have a ready means in their possession of adjusting these values to conform exactly to the results of the operations of subsidiary companies (Dickinson, 1906: 489).

It is certain that he supported consolidated form of presenting, but he explained consolidated balance sheet from the investment account of legal balance sheets of holding

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6) Because theses three papers were all reprinted in the British accounting journal soon afterwards: Dickinson (1904) was appeared in *The Incorporated Accountans' Journal* (November 1904, pp.34-40); Dickinson (1905) in *The Accountant* (October 7, 1904, pp.402-410); Dickinson (1906) in the same journal (May 19, 1906, pp.647-649).

companies. He saw the statements from the viewpoint of replacement of investment by subsidiaries ’ assets and liabilities. In his words, “ These Stocks are represented in the subsidiary balance sheets by capital assets and current assets diminished by capital and current liabilities ” (Dickinson, 1906: 489). It can be said that, therefore, both Dicksee and Dickinson first looked at the legal balance sheet and tried to amplify it using the investment account in it.

4. The First Example of Consolidated Accounts in UK

The first example affirmed by now of consolidated accounts in UK was mainly explored by Edwards (1991). According to the preceding study, it was Pearson and Knowles Coal and Iron Co. Ltd. (PK Ltd.) that a “ joint ” balance sheet was prepared as early as 30th June, 1907 and published consolidated balance sheet on 30th June 1910 (Edwards, 1991: 117-120).

However indisputable the essential contribution of Edwards (1991) for the research in this field is, the vital point is still not fully discovered: From where did the directors of the PK Ltd. get the idea to prepare a consolidated balance sheet? From Edwards ’ suggestion, the more likely explanation is that it was in common with many other accounting innovations such as branch accounting procedures (Edwards, 1991: p.130). It may be true that branch accounting was well established inside of PK Ltd. at that time and that the preparation of a consolidated balance sheet may be seen simply as the application of it, but the same innovation can be seen in the US companies earlier. And Edwards can not absolutely deny the possibility that the idea had come from US practice. He only states:

> There is no evidence that he was in any way associated with iron and steel companies in the United States, where the preparation of consolidated accounts was already well established, or even that he visited the country, although he may well have (Edwards, 1991: 129)

It must be useful when this point is discussed to compare with the Nobel Industries ’ published accounts after twelve years of PK Ltd. experience and the characteristics of Nobel’s Secretary at this time, Sir Josiah Charles Stamp. First of all, Nobel Industries invested in General Motors Corporation of America in 1920 and had close links with General Mortors ’ largest shareholders, Du Pont (Reader, 1970: 385-386). Secondarily, during the preparation of the tax case against Kodak Ltd. Stamp had studied their combined balance sheets for 1900 and 1901 (Bywater, 1984: 263). Furthermore, he not only said that the science of making consolidated accounts had not advanced far in this country, though it was well known in America (Stamp, 1925: 312), but also was fond of saying that every British public man ought to go the United States every other year (McKenna, 1959: 818). Of course it is difficult to compare the two at the same dimension, but it is also hard to completely deny that Bleckly in PK Ltd. was not different from Stamp and had special preference to America. In other words, there is still some possibility that PK Ltd.'s attempt to present consolidated accounts might have been influenced by the American precedent.

5. Consolidated Accounts as Supplementary Statements

Today it is globally confirmed in the setting process of International Accounting Standards that consolidated statements are appropriate documents for holding companies to prevent the accounting problem that holding company's directors has too much discretion in creating its profit number by using subsidiary companies. But almost eighty years ago, consolidated balance sheet was seen as only " an invention of the United States " (Company Law Amendment Committee, 1926: Qu.939). In other words, consolidated statements were seen indigenous to American financial reporting (Moonitz, 1951: 10). Consolidation accounting can be said to have been nothing more than a local attempt.

According to Robson (1950), in 1922 the idea to prepare consolidated statements was novel to business men in his country and in large measure they reacted at first with indifference or opposition (Robson, 1950: 7). An historian notes that a number of the witnesses of the Greene Committee were quite hostile to the use of consolidated statements as a means of presenting group accounts (Hein, 1978: 274). Therefore it is possible to assume that most of British accountants were at first quite indifferent or in opposition or even hostile to the adoption of consolidated accounts. Granting this assumption, then, what was their own opinion on the accounting problem concerning holding companies? It was observed that the British accountants lean much more to the adjustment and amplification of the holding company statements than do their colleagues in the United States (Peloubet, 1955: 31). The notable accountant at the time also described that the view and practice in England tends to adopt the principle of adherence to what we term the legal balance sheet, but to the disclosure therein under separate heads of the position between the parent or holding company and its subsidiaries, and a clear indication so far as trading is concerned of the methods adopted of treating the trading results of the subsidiaries in aggregate (Cash, 1929: 727) [7].

The reaction by Dicksee and Dickinson at the beginning years of twentieth century mentioned above also showed in part that legal balance sheet was still important to British accountants. In this and next sections, the arguments brought forward by the advocator for and the opponent against consolidated accounts will be examined. It will be shown that the above assumption that British accountants thought the legal statements more important than new American form of reporting seems to be true.

To borrow Kitchen's word, it is beyond doubt that the Garnsey lecture of 1922 was central to the development of accounting for holding company groups throughout the period with which we are concerned (Kitchen, 1972: 114). His lecture is said to be important because of the fact that Garnsey was a leading professional accountant, thoroughly convinced of the value of group accounts, vigorously expressing these views to the London members of the Institute of Chartered Accountants of England and Wales (Edwards and Webb, 1984: 4). It is easy to imagine that to advocate consolidation accounting publicly was uncomfortable if the assumption that most of British accountants at that time were quite indifferent or in opposition or even hostile to the adoption of consolidated accounts is correct. Garnsey did not write down that the atmosphere was a heavy pressure or not [8], but at least he noted that consolidated accounts are only supplement to parent-only accounts. This point is not emphasized enough before, but he surely said:

> On the whole it is better to submit the Amalgamated Balance Sheet as supplementary information to the so-called legal Balance Sheet of the Holding Company so that

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7) Even today, it is observed that in many countries except the United States, Parent-Company-Only statements are on a level higher than or equal to the consolidated statements- but not to their exclusion (Pahler, 2003: 63).

8) It is possible to know from the arguments in *the Times* that Garnsey was anxiously making considerable effort to adjust his support for consolidated statements to elders' discontent with it. For example, he wrote that "the main point I desire to make clear is that there is no difference of opinion between Sir Arthur Whinney and myself, or indeed, so far as I am aware, between accountants generally on the question" (*The Times*, 29 May 1925). Whinney, the vice-president of the ICAEW from 1925 to 1926 and then the president to 1927, had said before it that "there seems to be a general tendency among shareholders and others to call for consolidated balance sheets, to which there is, in my opinion, grave objection" (cited from *The Accountant*, 6June 1925 :926).

> shareholders can see the financial position of the Parent Company in its relationship to shareholders and creditors and also the combined results as a single organisation (Garnsey, 1923: 60).

It is possible to see that even the significant advocator at the time placed legal balance sheet first.

6. Adherence to Legal Balance Sheet

Garnsey mentioned above is famous as an advocator for consolidation accounting and next will be seen the opponents against the practical use of consolidated form of financial reporting in this section. It will be shown that they did not only offer opposition to it but also, it may be said with some exaggeration that, even tenaciously adhere to legal balance sheet. This paper examines the view expressed by D'Arcy Cooper who submitted a public comment in front of the company law amendment committee in 1920s and virtually gave it guidance on the issue of the accounts of holding companies.

According to Edwards (1989), it is likely that the committee attached a great deal of weight to D'Arcy Cooper's evidence in view of the fact that he was chairman of Britain's largest conglomerate, Lever Brothers Ltd (Edwards, 1989: 229). In other words, the case of Lever Brothers Ltd deserves attention, because of its size and because its new chairman Mr. D'Arcy Cooper (the first Lord Leverhulme having died in the same year) was to give important evidence in 1925 to the Committee on Company Law Amendment (Kitchen, 1972: 125). It can be said that his evidence affected the conclusion of the committee and consequently helped building a consensus among British accountants at the time.

Lever Brothers Ltd. is said to adopt an equity method in 1920s [9]. It took to the credit of profit and loss account the profits earned by subsidiary companies, whilst at the same time providing out of the holding company's profits for all losses made by subsidiary companies.

Cooper explained about his adoption of equity method into the company's accounts as

9) Strictly speaking, the procedure was different from today's equity method in the two points: Firstly, the parent company provided for all (not proportionate) losses of subsidiaries and secondarily, it made a reserve in its accounts for the losses instead of writing down directly the value of the share holding in a subsidiary company. But it seems sustained that this practice is an example of equity method, since according to Edwards and Webb, "companies which adopted the equity basis, ··· included Lever Brothers, one of the largest British conglomerates at this time" (Edwards and Webb, 1984: 40).

following:

> I think if the subsidiary Company has made a loss and he reserves for that in the parent Company, he keeps the capital value intact. … I think we come back to the original question that what he has to see is that the capital value is kept intact- that the losses are reserved for (Cooper, 1925: Qu.3837).

In short, in his opinion, the most important matter is to keep the book value of the investment on subsidiaries in the holding company's financial statement. Therefore, if subsidiary companies have made a loss in aggregate, which means that the item indicated the investment on subsidiaries in the legal balance sheet has declined in value, the parent company should absorb the loss. This is apparently the solution within the parent-only accounts. It seems clear that there is not any necessity to introduce consolidated figures at all in this approach.

Moreover, it would be interesting to note that this idea is closely related to the "general rule" referred to by Dicksee (1909) and in this sense, his treatment can be said as traditional. As shown in the previous section, Dicksee mentioned about the "rule that the whole loss on operations of an underlying company must be taken up by the holding company" (Dicksee, 1909: 293-294) and Cooper's approach seems more relevant than using consolidated accounts in order to respect the rule. This is because, even if in the consolidated accounts the subsidiaries' loss is included in the calculation, it does not necessarily mean that the holding company has made it up by itself. It might be possible to say Cooper's idea is reasonably based on the old British accountants' thinking.

7. The Emergence of Dunlop's "New Standard"

However hostile the British accountants might have been regarding to their adoption of consolidated accounts, it is the actual fact that they introduced the provisions requiring for consolidation in the Companies Act of 1948. According to Bircher (1988), who investigated the frequency of adoption for consolidated statements by British companies in the 12 months ending in June 1939, June 1945 and June 1948, it is clear that they became gradually in favour of this type of reporting [10].

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10) In 1938/39, 22.5% of the sample companies had voluntarily adopted some form of consolidated

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The reason why British accountant had become sympathetic to the consolidated statements is explored by many authors (de Paula, 1948; Kitchen, 1972; Walker, 1978; Edwards & Webb, 1984), and by now it seems to be broadly accepted that Dunlop Rubber's consolidation accounting marked a prominent milestone in the history of group accounts in United Kingdom [11].

In May 1934, de Paula, who was the chief accountant in the Dunlop Rubber Co. Ltd. at that time, presented the consolidated financial statements for the year of 1933. This statements were reprinted in *The Accountant* (12 May 1934, pp.676-679) and every accountant of those days could easily see its contents and format. Walker wrote that the praise lavished on Dunlop's report may well have encouraged other firms to attempt to follow Dunlop's example (Walker, 1978: 106). Indeed as follows, it had earned unstinted praise in the article:

> It is almost impossible to find sufficient praise with which to acclaim the new standard in company accounting set by the 1933 accounts of the Dunlop Rubber Company Limited. Our best commendation is really their appearance in this week ' s issue of *The Accountant* so that the accountancy profession itself may see the high level of informativeness that is possible in company accounts, particularly in the case of holding companies, if the determination of the management and officials is directed towards that end. These accounts answer all the present-day criticism regarding the obscurity that is possible in the earnings and assets of subsidiary companies when accounts are presented in the manner allowed by law. (*The Accountant*, 12 May 1934: 676)

It seems true that other holding companies immediately followed the precedence of Dunlop Rubber. For example, Lever Brothers started to adopt the same reporting form

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financial reporting. In 1944/45 the figure rose to 32.5% and 74.4% in 1947/48 (Bircher, 1988).

11) The *Royal Mail* case was of another importance for the development of group accounting in the United Kingdom, but in this case the abuse of subsidiaries by holding companies was only a part of the dispute. For example, among the fund of ￡8,907,054 which was declared as the company's dividends during seven years starting 1921, ￡3,030,693 (34.0%) was raised by means of using the reserve for income tax and excess profit tax and only ￡2,802,552 (31.5%) was earned by using subsidiary companies (Kohori, 1991: 134-135).

from the accounts for the year of 1934 [12]. While Dunlop's " trail-blazing " statements were settled on 31 December 1933, Lever Brothers ' 1934 accounts were closed on 31 December 1934. This means that the latter began imitating soon after the former published the accounts.

For what reason could the Dunlop Rubber's example have become such an effective stimulus? It surely has something to do with the revelation of the *Royal Mail* case (de Paula, 1934) or the stock market boom and its subsequent collapse or the penetration of so-called modern corporate economy (Bircher, 1991). The praises lavished on it might have been another reason (Walker, 1978). However, in addition to these settings, from the traditional thought of British accountants in response to the accounting problem for holding companies pursued in preceding sections, another explanation seems to be possible: de Paula's logic which supported for consolidated accounts contained much enough British accountants ' tradition to persuade conservative authorities.

Before making this explanation more convincing, it is useful to see the logic de Paula himself advanced when he chose to adopt consolidation accounting:[13]

> In the first place there is the assets of £200,000 (the cost of the shares) appearing in the legal Balance Sheet of the holding company which is expunged from the consolidated statement in order that its place may be taken in the latter document by that which the investment represents, namely the assets less the liabilities of the subsidiary company (de Paula, 1934: 72).

It is clear that he supported consolidated statements by the logic that the investment account in the legal balance sheet could be replaced by the subsidiaries ' assets and liabilities.[14] In the next section, the essential contribution of F.R.M. de Paula will be discussed from this point of view.

8. A Reason for the UK Holding Companies ' Adoption of Consolidated Accounts

As quoted earlier, F.R.M. de Paula made it clear that his company's consolidated accounts would be created by substituting investment account in holding companies ' legal

12) This can be seen easily in Garnsey & Robson (1936, pp.263-269).

accounts for subsidiaries ’ assets and liabilities. It is easy to find the traditional thought of British accountants here: firstly he starts from the investment account in the holding companies ’ legal balance sheet and secondly he analyses that the cost of shares stands

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13) His exact explanation was as follow (de Paula, 1934: 72):

suppose a case where a holding company purchased for a sum of £200,000 the whole of the issued share capital of another company consisting of 150,000 shares of £1 each. It happens that the Balance Sheet of the latter company discloses the following position-

	£		£
Share Capital	150,000	Goodwill	10,000
Creditors	130,000	Tangible Assets	290,000
Profit and Loss Account	20,000		
	300,000		300,000

Assume further that the purchase was effected on the day on which the holding company closed its accounts and that the newly acquired subsidiary is therefore coming into the consolidated statement to prepare. ･･･There therefore comes into the consolidated statement the various tangible assets of the subsidiary which will be grouped under their appropriate headings-

Totalling	290,000
There will also come in under the heading of goodwill the amount at which that asset stands in the subsidiary Balance Sheet, viz	10,000
We must now, however, face the fact that we had to pay a premium for these shares which is not represented by any Specific asset in the subsidiary's accounts	50,000
Thus we get for our consolidated statement a goodwill figure of 60,000	
Although, however, we paid this premium for the shares, there were undistributed profits in the subsidiary which we can abstract by way of dividend at once if we will, so that these profits should properly be deducted	20,000
Leaving as the effective price we have paid for the goodwill of the subsidiary	40,000
The total we have accounted for on the assets side of the consolidated statement is thus	330,000
After inserting on the liabilities side of the statement the subsidiary company's creditors amounting to	130,000
There is left a difference of	200,000

There is left a difference of £200,000 which, you will observe, is exactly equal to the cost of the investment appearing in the legal Balance Sheet.

14) Apparently, this view is in the same line with so-called "Parent Company Concept". Under this concept, the consolidated balance sheet is essentially a modification of the parent's balance sheet with the assets and liabilities of all subsidiaries substituted for the parent's investment in subsidiaries. ･･･ And similarly, the consolidated income statement is essentially a modification of the parent's income statement with the revenues, expenses, gains, and losses of subsidiaries substituted for the parent's income from investment in the subsidiaries (see FASB, 1991: pars. 64-65).

for the assets and liabilities of the purchased subsidiaries.　de Paula's explanation is very similar to Dickinson (1904), but his example is far more sophisticated and concrete[15].　It seems to be possible to say that de Paula has achieved the fusion of American consolidation practice and the British accountancy in 1930s and in this very point there was an essential contribution of F.R.M. de Paula in respect of the development of group accounting in the United Kingdom.　He is already famous as a distinctive student, teacher, practitioner, and author; as wartime administrator in two world wars; as university lecturer and professor, albeit par-time; as accountant and financial manager in industry; as standard-bearer in the movement for fuller disclosure and greater comprehensibility in financial reporting; as the first non-practising member of the Council of the ICAEW; as a main progenitor of the ICAEW ' s important *Recommendations on Accounting Principles* which began to appear under his Vice-Chairmanship and Chairmanship of the ICAEW ' s Taxation and Financial

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15) The logic advanced by Dickinson was as follows (Dickinson, 1906: 489-490):

These stocks are represented in the subsidiary balance sheets by capital assets and current assets diminished by capital and current liabilities; hence, if the balance sheet of the holding company is to show clearly the true position, these stocks should be divided in such manner as to show how much of them is represented by fixed assets which can be sold if desired without interfering with the operations; how much is represented by current assets dither necessary for the purpose of carrying on the business (such as inventories, accounts receivable, working cash balances, etc.) or available for immediate sale at any time (such as marketable stocks and bonds); and lastly by how much this total of assets is diminished by the liabilities that may have been incurred by any of the subsidiary companies in respect thereof.　When the assets and liabilities so detailed have been segregated there will still remain a difference between the cost price in the books of the holding company of the stocks of the subsidiary company and the net total of the above assets and liabilities, and this will be represented-

(1)　By a debit of the excess above par paid by the holding company for the capital stock of the subsidiary company.

(2)　By a credit of the surplus earnings of the subsidiary company accrued prior to the date of purchase.

(3)　By a credit of the surplus earnings of the subsidiary company accrued subsequent to the date of purchase.,

The first of these items represents the amount paid by the holding company for-

(a)　The surplus existing at the date of purchase by the holding company, and

(b)　The estimated Value of the goodwill or the subsidiary company at the date of purchase.

Item (2), then, clearly is included in item (1) and should be deducted therefrom. Item (3) represents the true surplus accruing to the holding company out of the earnings since the date of consolidation.

It will be seen that the above analysis of the investment account of the holding company, if given effect to and spread on the balance sheet of that company, will give what is known as a consolidated balance sheet･･･

Relations Committee early in the 1940s; as successful industrialist and director of important companies; and as educationist (Kitchen & Parker, 1980: 81). In addition to these accomplishments, the phrase might be adequate to describe him "as a leader for harmonious development of the British accountancy with American practice in regard to group accounting".

He had close relationship with American practices: Pierre du Pont, the president of General Motors, sat on the board of Dunlop's American subsidiary (Chandler, Jr., 1990: 305); he had been present in October 1925 at a London Members' lunch chaired by Sir Gilbert Garnsey, a partner of Price, Waterhouse and Co. who was no doubt in touch with his American partner A.L. Dickinson, at which Sir Joseph Stamp, who was an advocator of American consolidation practice, had given a paper (Kitchen & Parker,1980: 87). It is impossible to deny the effect on him of the American presence, but as pointed before, he gave careful consideration to the traditional characteristics of British attitude toward group accounts and it might well be one reason why his consolidated financial statements were accepted even by the elderly accountants. In contrast to him, Garnsey came under criticism from within the profession for his championship of consolidated balance sheets and consolidated profit and loss accounts for holding company groups (Kitchen & Parker, 1980: 87). The difference of these two publicists of consolidated reporting, one is just a year older than the other, were not only the time they raised their voices (Garnsey in 1920s and de Paula in 1930s) but also the way their logic rose. de Paula was successful because of his composition mixing up the American consolidation practice and British accountancy.

9. Conclusion

As is often the case with other accounting techniques, the practice of consolidation has been adopted at very varying rates in every country. From the viewpoint that each country has its own historical background, it seems very natural. In the case of the United Kingdom, it is definite fact that the rate of adoption of group accounting procedures was slow, particularly compared with the US where, by 1910, consolidated accounts were a common feature of financial reporting (Edwards, 1989: 230).

In this paper, it was tried to point out that the slow adoption by British accountants does not necessarily mean "slow progress" (Edwards, 1989: 230). They had their tradition which gave legal accounts the first position and devised particular procedures in accordance with the idea by themselves. de Paula, who was already of socially importance in the UK, successfully achieved the fusion of the British accountancy and American consolidation practice.

Later he took an prominent role to promulgate the ICAEW's *Recommendations on Accounting Principle Ⅶ: Disclosure of the Financial Position and Results of Subsidiary Companies in the Accounts of Holding Companies* which is important because the Cohen committee drew heavily on the ICAEW's memorandom and the submission was, in turn, based on this Recommendation. The legislation which requires consolidated statements for holding companies was brought into effect in the United Kingdom in 1947/48 and it consequently made consolidation accounting common practice. This process of accounting change has been paid much attention before, while de Paula's arguments in 1930s have not fully been examined. His essential contribution was achieved ten years in advance to Companies Act of 1947/48, which was approved by British accountants and brought about the development of group accounting in the United Kingdom after a decade.

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