

Some Evidences of the British Accountancy Profession's Preference for the Equity Method between 1900 and 1929

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1 Introduction

The purpose of this paper is to present some evidences of the British Accountancy Profession's preference for the equity method between 1900 and 1929. It has been revealed that the British holding companies adopted the equity method more than consolidated accounts before 1933 (Edwards and Webb, 1984). However, there is little evidence that demonstrates the popularity of the equity method among the accountancy profession.

This paper attempts to evaluate the content of early books published in the UK between 1900 and 1929 stored in the ICAEW Library and articles which mostly appeared in *The Accountant*, also between 1900 and 1929. Attention will be drawn to the fact that a considerable number of these publications proposed adoption of the equity method as an appropriate method of group accounting during this period. The finding indicates that not only company directors but also leading accountants and writers were preoccupied by legal form of company accounts. The reason of support provided for the equity method will be further explored.

2 Sources of evidence investigated

In order to obtain an understanding of the accountancy profession's attitude towards group accounting in the first half of twentieth century, this paper will investigate books and articles published by leading accountants and writers between 1900 and 1929. During this period, the number of books and articles on the topic of group accounting was not enormous and it is considered possible to examine whole items available.

The books investigated in this paper were identified through the ICAEW Library and Information Service Catalogue which can be accessed via the internet¹⁾. The database is called LibCat and described as 'a single database with details of around 40,000 books, 30,000 journal articles and other items in the Library Collection' (The ICAEW Library and Information Service). The ICAEW library is highly regarded: in the Guildhall Library's words 'the Institute maintains a library containing a comprehensive collection of United Kingdom and world-wide accounting publications' (Guildhall Library Manuscripts Section's leaflet for 'Records of the Institute of Chartered Accountants in England and Wales and its Predecessor Bodies at Guildhall Library': 5).

3 Period investigated

The period selected for study is from 1900 to 1929. It is considered appropriate to set the starting year for this paper as 1900, because A.L. Dickinson's three papers, which are considered as 'the earliest clear writings on group accounting' (Walker, 1978: 148), were published between 1904 and 1906 (Dickinson, 1904; 1905; 1906). Dickinson was a British accountant and was practicing in the United States from 1901 to 1913 (DeMond, 1951; Edwards, 1984 b). His first paper, Dickinson (1904), was presented at the International Congress of Accountants held at the World's Fair, St. Louis on 26th, 27th and 28th September 1904. This paper was published in the official record of the Congress and, in the UK, in *The Incorporated Accountants' Journal* (November 1904, pp.34-40). The second (Dickinson, 1905) was a lecture given on 8th March 1905, before the School of Commerce, Accounts, and Finance, New York University. The lecture was reprinted in the British journal *The Accountant* (7 October 1905, pp.402-410). Dickinson (1906) is a contribution to the initial volume of *The Journal of Accountancy* in America and a month later it appeared

1) The URL is <http://libcat.icaew.co.uk/uhtbin/cgiisirsi.exe/U5m0CTim6e/0/0/49>

also in *The Accountant* in Britain (19 May 1906, pp.647-649).

The end date for this chapter is 1929, which is when the first Companies Act addressing the issue of how to account for the financial affairs of holding companies took effect.

4 Literature search

4.1 Book survey

The ICAEW LibCat showed that 175 books were published with the word 'accounts' in their title between 1900 and 1929, 77 books with the word 'accounting' and 18 books with the word 'auditing' (Table 1). Among these 270 books, 225 books were published in the UK and the rest were published elsewhere in the world. According to the 'Subjects' classification devised by the ICAEW Library and Information Service, 68 books can be identified as relevant to this study, consisting of 50 books on book-keeping/accounting, 13 books on auditing and 5 books on trust/consolidation (Table 1).

Of these 68 books, adjustment needed to be made for two books listed under two

Table 1 Numbers of Books 1900-1929

Word in title	<i>accounts</i>	<i>accounting</i>	<i>auditing</i>	<i>total</i>
Number published	175	77	18	270
published in UK	161	48	16	225
published out of UK	14	29	2	45
Subject:				
book-keeping/accounting	24	25	1	} → 68 picked up
trust/consolidation	5			
Auditing			13	
cost/factory accounting	23	15		
Executor	22			
Hospitals/schools accounting	13			
local government	11	2	1	
accountancy body's reports	9			
Income tax	6			
farming accounting	5			
industry-based	27	4		
Other	16	2	1	
Total	161	48	16	

Source: ICAEW Library and Information Service Catalogue

different subject areas²⁾, and one item which was merely an addendum to a book previously published³⁾. Further, for the 12 titles which had multiple editions, only the latest (closest to 1929) version was retained on the list for inspection, and the other 31 editions were excluded⁴⁾. After adding 6 more books which were discovered through searches of other available catalogues (Ashworth, 1925b; Cutforth, 1923, 1926; Leake, 1923, 1929; Simons, 1927), the study sample contains 40 books on accounting, book-keeping, auditing and group accounts published between 1900 and 1929.

The texts of the 40 books were then examined to discover whether, and how, they dealt with the accounting practices of holding companies. Of the 40 books, 11 books covered the issue of holding company accounts. Table 2 summarises the result of this exercise.

4.2 Journal article survey

In order to achieve a fuller image of the accountancy profession's attitudes towards group accounting between 1900 and 1929, the journal *The Accountant* was also surveyed. The indexes for the period 1900-1929 revealed 41 items that can be identified by using the following appropriate keywords: 'holding company', 'consolidated balance sheets', 'subsidiary (profits/losses)', and 'group accounts'. Table 3 shows the results.

From the 41 items above, only the 5 lectures (Cash, 1929; Garnsey, 1923, 1926; Stamp, 1925; Staub, 1929) were considered appropriate for further study since it is impossible to identify the authors of other items. Also, in the case of 'weekly notes' 'correspondence' and 'queries & replies', the items are usually too short to indicate the

2) Dicksee's *Advanced Accounting- with an appendix on the law relating to accounts* (5th ed. London: Gee, 1916) was picked up twice under subject titles of 'accounting' and 'accounts'. Johnson's *Book-keeping and Accounts, with Notes on Auditing, etc.* (London: Effingham Wilson, 1905) was also picked up twice under subject titles of 'accounts' and 'auditing'.

3) Dicksee, L.R., *Auditing: Practical Manual for Auditors- Addendum*, London: Gee, 1929, 42p. Attached to Main Volume.

4) The reason for retaining the latest (closest to 1929) version is that the revised versions are more likely to cover the topic of holding company accounts than earlier versions. The excluded editions are as follows. Chandler's *Trust Accounts* (2nd), Coles' *Company Accounts* (1st, 2nd), Cropper's *Book-keeping and accounts* (1st, 2nd, 11th, 12th), Cropper's *Accounting* (1st, 2nd), de Paula's *The Principles of Auditing* (1st), Dicksee's *Auditing* (9th, 10th, 11th, 12th, 14th), Fieldhouse's *The Students' Complete Commercial Book-keeping, Accounting and Banking* (9th, 11th, 12th, 14th, 15th, 20th, 34th), Fieldhouse's *The Students' Advanced Commercial Book-keeping, Accounting and Banking* (1st, 20th), Fieldhouse's *The Student's Elementary Commercial Book-keeping, Accounting and Banking* (13th), Mackay's *Company Accounting* (1911), Spicer's *Practical Auditing* (2nd), Spicer's *Book-keeping and Accounts* (3rd, 4th, 5th, 6th). It is noted here that Dicksee's *Auditing* is exception and the version on the list is 13th edition rather than 14th. This is because it is known by accounting historians that Dicksee included a chapter on holding companies from 13th edition in 1924 (Edwards and Webb, 1984: 35).

Table 2 Book Survey 1900-1929

	<i>author</i>	<i>title</i>	<i>year</i>	<i>Coverage of Holding Company Accounts</i>
1	Ashworth, R.	<i>Limited Liability Companies</i>	1925	pp.188-191
2	BM/FAX 5 [pseud.]	<i>The ordinary man's own accounts</i>	1926	no
3	Carter, R.N.	<i>Advanced Accounts</i>	1925	pp.944-949
4	Chandler, P.W.	<i>Trust accounts</i>	1919	no
5	Chick, A.F.	<i>Apportionment in relation to trust accounts</i>	1923	N/A*
6	Coles, A.	<i>Company accounts</i>	1925	pp.293-295
7	Cropper, L.C.	<i>Book-keeping and accounts</i>	1927	no
8	Cropper, L.C.	<i>Higher book-keeping and accounts</i>	1927	no
9	Cropper, L.C.	<i>Key to book keeping and accounts</i>	1915	no
10	Cropper, L.C.	<i>Accounting</i>	1929	no**
11	Cutforth, A.E.	<i>Audits</i>	1923	no
12	Cutforth, A.E.	<i>Methods of Amalgamation</i>	1926	chapter VI
13	Davey, F.	<i>The students' catechism on book-keeping, accounting and banking</i>	1927	no
14	De Paula, F.R.M.	<i>The principles of auditing</i>	1928	pp.84-85
15	De, Zouche, R.C.	<i>Accounting</i>	1921	no
16	Dicksee, L.R.	<i>Advanced Accounting</i>	1916	no
17	Dicksee, L.R.	<i>How to install a proper accounting system</i>	1925	no
18	Dicksee, L.R.	<i>Auditing</i>	1924	pp.288-297
19	Fieldhouse, A.	<i>The students' advanced commercial book-keeping, accounting and banking</i>	1918	no
20	Fieldhouse, A.	<i>The student's elementary commercial book-keeping, accounting and banking</i>	1926	no
21	Fieldhouse, A.	<i>The students' complete commercial book-keeping, accounting and banking</i>	1929	no
22	Garnsey, G.	<i>Holding companies and their published accounts</i>	1923	chapter V-IX
23	Greenwood, W.J.	<i>Book-keeping and accounting exercises for accountant students</i>	1904	no
24	Greenwood, W.J.	<i>Book-keeping made easy</i>	1912	no
25	Hammond, E.J.	<i>Consignments, account sales and accounts current</i>	1924	no
26	Jackson, G.	<i>A practical system of book-keeping</i>	1902	no
27	Johnson, G.	<i>Book-keeping and accounts</i>	1905	no
28	Lancaster, J.	<i>Principles and practice of auditing</i>	1927	pp.165-166
29	Leake, P.D.	<i>Balance sheet Values</i>	1929	no
30	Leake, P.D.	<i>Depreciation and Wasting assets, and their treatment in assessing annual profit and loss</i>	1923	no
31	Mackay, J.D.C.	<i>Company accounting</i>	1919	no
32	Merrett, H.C.	<i>Accounting and cost finding</i>	1924	no
33	Nixon, A.	<i>Manual of bookkeeping and accounting</i>	1921	no
34	Porritt, H.W.	<i>Pitman's higher book-keeping and accounts</i>	1911	no
35	Simons, A.J.	<i>Holding Companies</i>	1927	chapter V-X
36	Spicer, E.E.	<i>Practical auditing</i>	1919	no
37	Spicer, E.E.	<i>Book-keeping and accounts</i>	1927	no
38	Taylor, E.M.	<i>One hundred questions and answers in auditing</i>	1927	pp.89, 93, 106, 116
39	Vickery, B.G.	<i>Principles and practice of book-keeping and accounts</i>	1928	pp.294-295
40	Wardhaugh, J.B.	<i>Trust law and accounts</i>	1928	no

*The ICAEW librarian has been unable to find this item.

**Cropper (1929) added the provisions of the Companies Act of 1929, but it does not contain his own opinion/attitude towards group accounting and on this point the coverage was considered as "no".

Shaded rows identify the 11 books dealing with holding company accounts

Source: original

Table 3 Items Traced Using the Index to *The Accountant*, 1900-1929

	keywords <i>holding company</i>	<i>consolidated B/S</i>	<i>subsidiary</i>	<i>group accounts</i>	<i>total</i>
lecture	3	2	0	0	5
leading article	5	5	0	0	10
weekly notes	4	5	2	0	11
correspondence	6	2	4	0	12
queries & replies	0	0	3	0	3
total	18	14	9	0	41

Source: *The Accountant*

authors' attitude fully enough and, moreover, there are many cases where the author has not reached a conclusion on the matter of holding company's accounts. Five more articles (Ashworth, 1925b; D'Arcy Cooper 1925; Garnsey, 1925; Leake, 1925; Whinney, 1925), published elsewhere, which were referred to in a leading article ("The Accounts of Holding Companies" *The Accountant*, 8 August 1925) and two more articles in *The Accountant* (Kerr, 1915; Morgan, 1927) are added to the list⁵⁾. Table 4 shows the result.

Table 4 Journal Articles Survey, 1900-1929

	<i>author</i>	<i>title</i>	<i>date</i>
1	Ashworth, R.	Consolidated Balance Sheets	5 Jun. 1925
2	Cash, William	Consolidated Balance Sheets	7 Dec. 1929
3	D'Arcy Cooper, F.	Consolidated Balance Sheets	3 Jun. 1925
4	Garnsey, G.	Holding Companies and their Published Accounts	6 & 13 Jan. 1923
5	Garnsey, G.	Consolidated Balance Sheets	29 May. 1925
6	Garnsey, G.	Holding Companies and their Published Accounts	20 Feb. 1926
7	Kerr, D.S.	Consolidated Balance Sheets	20 Nov. 1915
8	Leake, P.D.	Consolidated Balance Sheets	6 Jun. 1925
9	Morgan, H.	Published Balance Sheets and Accounts	25 Jun. 1927
10	Stamp, J.	Audit of "Holding " Companies	21 Feb. 1925
11	Staub, Walter A.	Consolidated Financial Statements	7 Dec. 1929
12	Whinney, A.	Consolidated Balance Sheets	3 Jun. 1925

Shaded rows identify the 7 articles written by authors who have not published books on the subject.

Source: original

Seven of the above authors (2, 3, 7, 9-12) had not written books on the subject. A comparison of the content of the other five articles reveals that the views expressed by

5) Kerr (1915) was known to the author from Walker (1978: 22). The keywords search did not pick up Morgan (1927), whose title was 'Published Balance Sheets and Accounts', but was known to the author from Walker (1978: 79).

their three authors are consistent with that appearing in their books. Items in the former group only, therefore, were selected for analysis in the next section.

5 Findings from literature search

5.1 Group accounting theory as exemplified by the literature 1900-29

Table 5 is a list of the eleven books from Table 2 and the seven articles from Table 4 presented in a chronological order. Table 6 summarises the result of the survey of their contents. It identifies the preferred method(s) of group accounting by the 18 literatures. It is noted here that this study recognises and distinguishes between six methods of group accounting. This categorization is based on a previous literature (Edwards and Webb, 1984), except for modification of the definition of method 1⁶⁾.

Table 5 List of literatures investigated 1900-1929

	<i>Author</i>	<i>Title</i>	<i>Year</i>
1	Kerr, D.S.	<i>Consolidated balance sheets</i>	1915
2	Garnsey, G.	<i>Holding companies and their published accounts</i>	1923
3	Dicksee, L.R.	<i>Auditing</i>	1924
4	Ashworth, R.	<i>Limited liability companies</i>	1925
5	Carter, R.N.	<i>Advanced accounts</i>	1925
6	Coles, A.	<i>Company accounts</i>	1925
7	D'Arcy Cooper, F.	<i>Consolidated balance sheets</i>	1925
8	Stamp, J.	<i>Audit of 'holding' companies</i>	1925
9	Whinney, A.	<i>Consolidated balance sheets</i>	1925
10	Cutforth, A.E.	<i>Methods of amalgamation</i>	1926
11	Lancaster, J.	<i>Principles and practice of auditing</i>	1927
12	Simons, A.J.	<i>Holding companies</i>	1927
13	Taylor, E.M.	<i>One hundred questions and answers in auditing</i>	1927
14	Morgan, H.	<i>Published balance sheets and accounts</i>	1927
15	De Paula, F.R.M.	<i>The principles of auditing</i>	1928
16	Vickery, B.G.	<i>Principles and practice of book-keeping and accounts</i>	1928
17	Cash, W.	<i>Consolidated balance sheets</i>	1929
18	Staub, W. A.	<i>Consolidated financial statements</i>	1929

Source: Tables 2 and 4 of this paper

Method 1: The inclusion of profits and losses of subsidiary companies in the holding company's statutory (legal entity-based) accounts irrespective of dividends

⁶⁾ Edwards & Webb (1984) describe method 1 as 'Profits earned by subsidiaries accounted for on the accruals basis in the holding company's statutory accounts', but this has been changed as above since the original definition cannot handle cases where subsidiary companies incur losses.

actually declared or paid.

Method 2: Balance sheets of subsidiaries published in addition to the holding company's statutory accounts.

Method 3: Combined statement of assets and liabilities of subsidiaries published in addition to the holding company's statutory accounts.

Method 4: Combined statement of assets and liabilities of group published in addition to the holding company's statutory accounts

Method 5: Consolidated balance sheet published instead of the holding company's statutory accounts

Method 6: Consolidated balance sheet published in addition to the holding company's statutory accounts.

The method 1 is not always the same as today's equity method. This is partly because, in the first half of twentieth century, the inclusion of profits and losses of subsidiary companies did not always clearly related to the valuation of asset items such as 'shares in subsidiaries', although the profits and losses are reflected in the amount of the holding company's own capital. Moreover, it occurred quite often that a full amount of, rather than a proportionate amount of, losses incurred by subsidiary companies was provided for by the holding company⁷⁾. In this study the term 'equity method' is used for indicating the method 1, but the above difference from today's usage should be kept in mind.

In Table 6, the literatures are arranged according to what its author proposes as the best method, or methods, of group accounting. For example, Dicksee (1924) proposed method 1 as the best group accounting practice.

According to the patterns observed from Table 6, there seem to be two types of conclusion on group accounting. One pattern revealed in those literatures focuses on the issue of the equity method (method 1) as the appropriate solution. The other pattern concerns those authors who acknowledge the existence of a number of acceptable ways of accounting for groups of companies and suggest no single method as most appropriate. These patterns will be fully introduced in the sections 5.3 and 5.4, but before that it might

7) For example, Dicksee stated as follows.

It is quite correct that its proportion of profits, only, should be taken up, but in many cases a holding company owning, say, ninety per cent. of the stock of another company, which is being operated by it in connection with other companies, should take up all the loss of the latter rather than its proportion only, which in this case would be ninety per cent. (Dicksee, 1924: 293)

Table 6 Accountants' Attitudes 1900-1929

preferred method(s)					
method 1	method 2	method 3	method 4	method 5	method 6
Dicksee (1924)					
D'Arcy Cooper (1925)					
Morgan (1927)					
de Paula (1928)					
Cash (1929)					
Kerr (1915)	Kerr (1915)				Kerr (1915)
Garnsey (1923)	Garnsey (1923)	Garnsey (1923)			Garnsey (1923)
Simons (1927)	Simons (1927)	Simons (1927)			Simons (1927)
	Vickery (1928)	Vickery (1928)			Vickery (1928)
	Ashworth (1925)	Ashworth (1925)		Ashworth (1925)	
				Staub (1925)	
					Stamp (1925a)

Notes

- Whinney, A. (1925) is not included in Table 6 above, because he did not recommend any form of group accounts but stated that 'the only balance sheet which a company is, by law, bound to issue is that which is required by implication by the Companies Consolidation Act, 1908, and by a company's articles of association'.
- Carter (1925: 944-949), Coles (1925: 293-295) and Cutforth (1926: chapter VI) are not included in Table 6 above, because their coverage of holding company accounts related only to issued arising at the time of their formation.
- Lancaster (1927: 165-166) is not included in Table 6 above, because he did not recommend any form of group accounts but stated that 'the auditor has to rely upon his own examination of the balance sheets of the subsidiary companies and upon the rate of interest or dividend which has been received' (p.166).
- Taylor (1927: 89, 93, 106, 116) is not included in Table 6 above, because he did not recommend any form of group accounts but stated that 'the authors have dealt with this matter in works on *Accountancy*' (p.89). Unfortunately, the item on *Accountancy* could not be traced.

Source: original

be useful to take a look at accounting problems of holding companies observed by the professional accountants of the day. The group accounting method for possible adoption is to be discussed against a background which recognises such problems (5.2).

5.2 Problems recognised by contemporary professional accountants

The problems of holding company accounts were well recognised by the professional accountants in Britain at the time in various ways. Some argued that profit and loss account of holding companies could be made up without providing for certain subsidiary companies' losses while absorbing other subsidiary companies' profits.

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, 1924: 289)

As regards profits, true and comprehensive trading results were obscured, and cases arose where it was claimed that a holding company could use dividends declared or profits earned by one or more subsidiary companies and simultaneously ignore trading losses incurred by others. I need hardly say that this claim was not countenanced by enlightened commercial opinion and was opposed by accountants generally and not followed in good practice. (Cash, 1929: p.641)

It will be appreciated that where a Holding Company owns a controlling interest in the Share Capital of two operating Companies, or, alternatively, where one of two operating Companies acts also as a Holding Company by owning a controlling interest in the Share Capital of another operating Company, the Holding Company, by virtually controlling both businesses, has it in its power so to arrange matters as to divert profits from one business to another. (Cutforth, 1926: 63)

He instanced a recent case of a company, C., which owned subsidiaries A. and B. A. made a considerable profit and B. made an almost equivalent loss, so that the concern, as a whole, had achieved no result warranting a dividend. Nevertheless, C. ignored the loss in B., had a full dividend from A., and used it to pay a dividend to its shareholders. (Stamp, 1925a: 312)

One of the important points in connection with the audit of the Balance Sheet of a holding company is the basis of valuation of the shareholdings in the subsidiary companies ... it is commonly held that the holding company would not legally be compelled to provide out of revenue for the depreciation in value of its shareholdings in the subsidiaries. In a case where some of the subsidiary companies are making large profits and others losses, the shareholders of the holding company may be seriously misled if no provision is made for depreciation of the shares held in the losing companies. The position is similar to a company owning a number of branches and which took credit for the profits of the

successful branches but made no provision for the losses incurred by the other branches. (de Paula, 1928: 85)

Another problem recognised was that balance sheets of holding companies were deficient in that they contained no information as to loans and advances to subsidiary companies which often were included together with other assets or were presented in a misleading manner.

Frequently, the Balance Sheet of the holding company simply gives its own assets and liabilities, and these convey practically no information at all so far as the actual condition of the subsidiary companies is concerned. In many instances very large loans to underlying companies are included in the assets. In the absence of specific information as to the separate earnings or condition of such undertaking, it is impossible to judge whether such an advance is or is not a good asset. It becomes, therefore, a grave matter of principle, for the auditor to decide, and the form of the accounts in this instance becomes of unusual importance. (Dicksee, 1924: 289)

The question of the form of accounts for holding companies has therefore been somewhat in a state of flux. Old-fashioned methods complied with all legal requirements and satisfied many people, though there undoubtedly existed a strong and well-informed body of opinion which regarded as unsatisfactory the form of balance sheet of a holding company where no information was afforded as to the assets and liabilities of the subsidiary companies, particularly when, as in many cases, investments in subsidiary companies were included in total figures with other investments, and loans and advances to subsidiaries with other debtors to the parent company. Obviously the two classes of assets were quite dissimilar, particularly in regard to capability of realisation. (Cash, 1929: p.641)

There were also criticisms of existing practice concerning topics such as inter-company transactions and the treatment of pre-acquisition profits of subsidiary companies.

In other instance the parent company obtained a dividend from a subsidiary

by drawing upon the 'carry-forward' of profits which had accumulated in the subsidiary prior to its acquisition by the parent, and which were, therefore, included in the assets purchased, the full cost of such assets (including the balance of profits) being capitalised in the parent balance sheet. The use of profits in these cases, though legal, was obviously undesirable and even unjustifiable. (Stamp, 1925a: 312)

Sir Josiah dealt with various ways in which what was true for a part was not true for the whole, such as the selling of goods from one constituent to another, and registering a profit in the selling company which was not really a profit to the whole concern until the second company had sold them, or the making and selling of plant by one company to the capital account of the other and similar inter-company transactions in which no profit really resulted for concerns as a whole. (Stamp, 1925a: 312)

In addition, concern was expressed for minority shareholders.

This applies particularly to concerns which are controlled by means of a Holding Company and where there are shareholders whose shares have not been acquired whether preference or ordinary. It is obvious that in cases of this character, while transactions carried through by any one or more of the subsidiary undertakings may be to the advantage of the consolidation as a whole, yet at the same time they may seriously affect the interests of the outside shareholders. In this connection such transactions as inter-company buying and selling should be fair to all, and not merely be in the interests of the Holding Company or the group as a whole. Similarly, a loan from one subsidiary company to another without security may be perfectly reasonable looking at the concerns as a whole, and yet may be quite unfair if there are outside shareholders. (Garnsey, 1923: 13)

There is also the danger of oppressive treatment of minority shareholders where, for instance, a subsidiary company pays no dividends but the parent company takes credit for its share of the profits and obtains the funds by means of advances from the subsidiary, thus getting the full benefit of ownership without

distributing any dividends to minority shareholders. (Garnsey, 1923: 14)

The above extracts indicate the diversity and extensiveness of the problems which were discussed under the title of holding company accounts in Britain in 1920s. These problems usually had descriptive character as seen above, rather than neatly classified and categorised. The ICAEW later in 1943 arranged the issues under the two headings of 'balance sheet problem' and 'profit and loss accounts problem', the former being 'as to the way in which the funds of the holding company group so far as invested in subsidiary companies are distributed over the several types of asset belonging to the group' and the latter relating to the situation where holding companies' accounts fail to 'disclose the results of the group as a whole' (ICAEW, 1943: Head 10(B)(1)). However, during this period from 1900 to 1929, it seems usual to set the problems in a descriptive manner⁸⁾.

The descriptive manner in discussing the problems of holding company accounts without any classification and neat categorisation can be considered to be a reason that the accountancy profession at the time proposed various solutions in different ways. The next section (5.3) introduces literature which were in support of the equity method as a solution, which is followed by a section (5.4) that deals with literature suggesting the adoption of one of several methods of group accounting. The rest of literatures investigated in this chapter will be examined in the last section (5.5). They all represent the diversified patterns observed in Table 6.

8) It is true that Morgan (1927: 981-2) enumerated four cases of 'serious abuses and objections' such as:

- (1) That by bringing into the parent company's balance sheet the interests in subsidiary companies at cost, losses have been undisclosed and disregarded in arriving at the amount of profits shown as available for payment of dividends.
- (2) That the parent company may take credit for unreal profits arising from the carrying out of contracts for the supply of goods to a subsidiary company at substantial profits when such contracts or goods so far as the subsidiary is concerned may be expenditure on capital account, or, if purchased for the purposes of trading, may be still on hand and unrealised at the date of the balance sheet.
- (3) That the object may be to provide for undisclosed increase of remuneration to directors of the parent company, who may be appointed as directors of the subsidiary companies, the directors' fees of which are frequently by no means unsubstantial.
- (4) To conceal excessive payments for goodwill or profits on purchase of a business; investments in other companies that may not be authorised by the holding company's memorandum and articles of association, or loans to directors or officers. (Morgan, 1927: 981)

However, no literature was found that followed the above classification and developed the discussion of holding company accounts based on it.

5.3 Assessment of the equity method

There were five publications (Dicksee, 1924; D'Arcy Cooper, 1925a; Morgan, 1927; de Paula, 1928; Cash 1929) investigated in this study which were found to be in support of the equity method as a possible solution to the problems of holding company accounts⁹⁾ (Table 6). Below, the range of arguments put forward in support of the equity method is illustrated.

Dicksee (1924: 293-294) advanced the following method for applying the equity method.

Where the [undistributed] earnings of subsidiary companies have been carried into the books of the holding company, it follows, of course, that either some asset account, such as that representing the investment in the subsidiary company, has been correspondingly increased, or else it will be debited to an account called 'Profits of Subsidiary Companies' and the holding company's current Profit and Loss Account credited. Following out the same line, where a loss has been made, the Investment Account (or any other account which represents the cost of the underlying property), or the accounts 'Profits of Subsidiary Companies,' should be correspondingly decreased and the current Profit and Loss Account of the holding company debited. (Dicksee, 1924: 293)

This requirement to recognise only the holding company's share of the subsidiary company's profits is explained as follows.

The only legitimate way by which the holding company can secure its proportion of this profit being through dividends, it follows, of course, that the minority

9) Lawrence Robert Dicksee (1864-1932) was 'the most prolific and influential of the early British writers on accounting and auditing and the first professor of accounting in a British university' (Parker, 1984: 59). For his biography, see Kitchen and Parker (1984: 51-63). Frederic Rudolph Mackley de Paula (1882-1954) was 'the most influential British writer on accounting in the 1930s and 1940s,' (Parker, 1984: 55). de Paula 'succeeded Dicksee as part-time professor of accounting at the London School of Economics in 1926 but resigned in 1929 when he joined the Dunlop Rubber Co.' (Parker, 1984: 56). For his biography, see Kitchen and Parker (1984: 81-120). Francis D' Arcy Cooper (1882-1941) is a son of Francis Cooper, partner in the accounting firm Cooper Brothers & Co. and a chairman of Lever Brothers and Unilever. For his biography, see Edwards, (1984a: 781-785). William Cash was a 'president of the ICAEW, 1921-3' (Matthews, Anderson and Edwards, 1998: 126) and Henry Morgan was a 'vice president of the SIAA' at the time (*The Incorporated Accountants' Journal*, May, 1927: 276).

interests, no matter how small, will receive their share, although they can never be depended upon to contribute any proportion whatever of the losses. (Dicksee, 1924: 294)

Dicksee's recommendation for a more prudent approach towards the recognition of losses is also explained.

It is quite correct that its proportion of profits, only, should be taken up, but in many cases a holding company owning, say, ninety per cent. of the stock of another company, which is being operated by it in connection with other companies, should take up all the loss of the latter rather than its proportion only, which in this case would be ninety per cent. The reason for this is obvious. If the subsidiary company is an important or necessary link in the group usually operated by holding companies, and is losing money in its operations, it almost invariably happens that the parent company will be compelled to make cash advances sufficient to cover the losses sustained. (Dicksee, 1924: 292-293)

D'Arcy Cooper (1925a, see Table 5) clearly supported the equity method as follows.

I do not think it would be denied that it would be improper for a parent company to take to the credit of its profit and loss account the profits of its subsidiary companies without reserving for losses of subsidiary companies. (D'Arcy Cooper, 1925a: 18)

And he also emphasised his opposition to the consolidated balance sheet.

... but so long as this is done and the profit and loss account shows the total net profits or losses (as the case may be) of the whole of the companies, I see no useful purpose in producing an amalgamated balance-sheet which would be neither fish, flesh, fowl, nor good red herring. (D'Arcy Cooper, 1925a: 18)

Morgan presented the case for adopting the equity method as follows:

In the majority of cases the position of a subsidiary in relation to the parent company is to all intents and purposes analogous to a branch of the main business, and I therefore maintain that, as regards the balance sheet of the parent company, the results of the subsidiary should be taken into account and dealt with in the same way as you would deal with the accounts of a branch ... (Morgan, 1927: 981)

The auditor's responsibility to ensure such aggregate profits and losses to be reflected in holding company accounts was also emphasised.

I maintain that unless such aggregate profits and losses have been fully brought into the accounts of the holding company, not only has a shareholder a right to know that they have not been brought in, but he is also entitled to know the amount involved in such omission, and frankly, I cannot imagine that any reputable accountant could conscientiously sign a certificate that a holding company's balance sheet showed a true and correct view of the state of the company's affairs unless such aggregate profits or losses were taken into account. (Morgan, 1927: 982)

Whereas those above unequivocally favour the equity method, this is not the case with the next two. It is difficult to assume that the next two cases provide an evidence of a support for the equity method by the writers of the day. However, they are presented here because they both talking about amendment of holding company accounts (legal entity-based accounts) rather than introducing additional accounts such as consolidated accounts. The difference between the former three publications (Dicksee, 1924, D'Arcy Cooper 1925a, Morgan, 1927) and the latter two (de Paula, 1928, Cash, 1929) should be kept in mind.

de Paula (1928: 84-5) did not agree favour adoption of the equity method, in the sense of absorbing the profits of subsidiary companies, but he did advocate the importance of provision on the balance sheet of holding company for the losses incurred by them.

If the present financial position of a subsidiary company is equal to or stronger than it was at the time when the shares were acquired, then the shares held should appear in the holding company's Balance Sheet at cost. But if the

financial position has changed for the worse by reason of losses incurred by the subsidiary company since the shares were acquired, then the value of the shares held should be reduced by the amount of such losses, this sum being written off to Profit and Loss Account, and thus set off against the income received from the successful companies. (de Paula, 1928: 85)

William Cash, F.C.A. was an appointed member of the Greene Committee and, after the Committee's report had been issued, he summarised what might have been observed by the Committee as follows. It seems that he had not been fully convinced to support the equity accounting, but it is possible to see that he gave full consideration to the method as 'large and important' companies employed the practice.

The method at present followed, speaking generally, in the case of the largest combined Undertakings by Holding Companies is ... to bring in the Dividends declared or accrued in respect of Investments in the subsidiary Companies for the financial period and to state these in an aggregate sum with the Trading profit (if any) of the Holding Company.

Instances of large and important Undertakings can be adduced where this latter procedure has been extended so as to bring in to the accounts of the Holding Company the profits of the subsidiary Companies and not only dividends declared. (Cash, 1929: 641-2)

Cash's contention was that the Greene Committee's recommendation represented best practice and that emphasis should be on the legal balance sheet.

I think I may therefore state 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 ... (Cash, 1929: p.644)

Cash and, one might imagine, other leaders of the accounting profession, favoured an approach where financial reports focused on holding companies as separate legal entities reporting their legal relationships with subsidiaries but, in accordance with the concept of

conservatism, providing for all foreseeable losses.

5.4 Preference of multiple solutions

Five publications (Kerr, 1915; Garnsey, 1923; Simons 1927; Vickery, 1928; Ashworth, 1925) investigated in this study preferred multiple solutions (Table 6). Kerr (1915) is the earliest published literature among those listed on Table 5. He proposed three methods, including the equity method.

It is important that the accounts show the value of the equities of the stockholders of the holding company after taking into account all of the results of the changes in the assets and the liabilities of all of the subsidiary companies, thereby disclosing fully any increase (due to earnings) or decrease (due to losses) in the value of the combined equities in the various interests owned by the stockholders of the holding company. (Kerr, 1915: 629).

Kerr also supported the publication of consolidated accounts (method 6) and balance sheets of subsidiaries published in addition to the holding company's accounts (method 2). The publication of consolidated accounts is supported because

As regards the practical business result, it is the same, so far as the operations of the consolidated plants are concerned, whether the consolidation be brought about by actual transfer of the assets, or by the acquiring of the capital stocks of the subsidiary companies... (Kerr, 1915: 627)

The circumstances in which 'the Balance Sheets of the individual subsidiary companies should be published' is also explained.

... where a holding company owns not all but a majority of the capital stock of a subsidiary company and the public own the balance of the stock, or where preferred stock of a subsidiary company is held by the public, it is important that these other stockholders should have periodical statements of the affairs of the subsidiary companies. Further, where subsidiary companies have outstanding bond issues, it is frequently very advisable to publish the individual Balance

Sheets for the benefit of the bondholders¹⁰⁾. (Kerr, 1915: 627)

In his famous lecture delivered seven years later¹¹⁾, Garnsey (1923) acknowledged four methods of group accounting, including the equity method but he described it as 'unusual'¹²⁾.

- (1) To publish only the Holding Company's Balance Sheet and Profit and Loss Account, treating the interest in subsidiary companies as an investment in the Balance Sheet and including in the profits the dividends actually received from the subsidiary undertakings. The total profits and losses of the subsidiary undertakings are sometimes taken up in the Holding Company's Balance Sheet and Profit and Loss Account irrespective of what dividends are actually declared and paid, but this practice is unusual.
- (2) To publish the Balance Sheet and Profit and Loss Account of the Holding Company as in (1) and to present simultaneously either the separate Balance Sheets and Profit and Loss Accounts of all the subsidiary companies; or
- (3) As a separate Statement a summary of the assets and liabilities of all the subsidiary undertakings taken together.
- (4) To publish either separately or along with the Holding Company's Balance

10) The interest of creditors was also a discussed point at the Greene Committee.

The legal position of creditors, both secured and unsecured in relation to particular assets is lost sight of in a combined balance sheet, and the real position in this very important matter is distorted. I know it may be said that in practice the holding company is morally and financially responsible for the liabilities of its subsidiaries, but if bad trade or financial stress should bring about a crisis or secured creditors be driven to action, the remedy of the creditor will be against his immediate debtor, and the legal opinion is therefore strongly averse to a combined balance sheet as a legal or statutory statement of accounts, and in favour of the publication as heretofore of the balance sheet of the holding company.

(Cash, 1929: 645)

11) Kitchen (1972: 114) described the lecture that 'It is beyond doubt that the Garnsey lecture of 1922 was central to the development of accounting for holding company groups'.

12) The equity method has been often criticised because it allows full recognition of profit earned by subsidiary companies which is not realised from the viewpoint of group as a whole. However, the problem is not that significant in this study, because it has been already solved in 1920s through an idea as follows.

When profits are taken up by the holding company which have not been declared as dividends by subsidiaries, it should be borne in mind that these are not available for the purpose of a dividend payable by the holding company. It is not desirable that such profits should be taken credit for, but where they are so treated it is advisable to state the amount separately.

(Garnsey, 1926: 271)

Sheet (as in (1)) a consolidated Balance Sheet of the whole undertaking amalgamating the assets and liabilities of all the subsidiaries with those of the Holding Company and a consolidated Profit and Loss Account embracing the profits and losses of all the companies.

(Garnsey, 1923: 16)

Later in his paper, Garnsey (1923) repeated his opinion that the equity method was 'seldom' used in Britain. However, he considered such treatment acceptable provided it is accompanied by appropriate disclosure. The following extract is also of interest because Garnsey focuses on the concept of control, not merely ownership, as a precondition for profit recognition. as follows, but he stated very similarly to de Paula (1928) that any losses incurred by the subsidiary companies should be provided for by the holding company in their own accounts as follows¹³⁾.

It might be that the directors would wish to take up any undistributed profits of subsidiaries as an asset in the Holding Company's Balance Sheet and credit the amount to the Profit and Loss Account. If, as is assumed, the undertakings are not merely owned but effectively controlled, and the amount is properly disclosed on the face of the accounts, then no objection could be raised to this course provided always that any losses of other subsidiaries are reserved for. In this country it is seldom that profits of subsidiary undertakings other than their dividends are taken credit for in the Parent Company's Balance Sheet, but if they are, care should be exercised to see that the amount does not appear under the general head of Sundry Debtors for the reason that it will not be collected unless the subsidiaries pay a dividend.

(Garnsey, 1923: 36)

13) Despite describing adoption of the equity method in Britain as 'unusual' and 'seldom', just three years later he cited the method as both popular and possible stepping-stone towards the adoption of consolidated accounts.

It should be noticed that the practice adopted by many holding companies of taking up all profits and providing for all losses implies a Consolidated Profit and Loss Account and regards all the concerns as one entity. It would seem a logical development of that step to give a Consolidated Balance Sheet of the whole undertaking. (Garnsey, 1926: 272)

In common with de Paula (1928), Garnsey insisted that any losses incurred by the subsidiary companies should be provided for in full, rather than in proportion, by the holding company.

It is now necessary to consider the position supposing the subsidiaries taken as a whole have changed for the worse: that is to say, there is a loss (after charging any dividends paid) which has arisen since the businesses were acquired.

It is submitted that this loss must be provided for by the Holding Company in its Profit and Loss Account and deducted from any amount standing as an asset in the Balance Sheet for 'Holdings in and Advances to Subsidiary Companies'. ...

In practice, some Holding Companies take up in their own accounts all losses made by constituent undertakings and not merely the proportion attributable to the number of shares held.

(Garnsey, 1923: 38-9)

Simons (1927) acknowledged the use by holding companies of four methods of group accounting, and considered each 'of especial value in particular cases' (Simons, 1927: 54). The four methods are, in essence the same as those acknowledged by Garnsey¹⁴.

However, Simons is more positive about the equity method than Garnsey, since he stated as follows. He clearly suggests not only providing for subsidiaries' losses but also adding their profits to the balance sheet item of holding company accounts.

14) Actual words by Simons (1927: 54) are as follows.

- (1) The publication of a Balance Sheet setting out the holdings of shares in Subsidiary or Allied Companies as so many investments and treating them in the way that ordinary holdings of investments held without any purpose of control would be treated. In these cases the dividends actually declared by the Subsidiary or Allied Companies would be brought into credit of Profit and Loss Accounts, although cases occur in which the actual balances of Profit or Loss made by Subsidiary Companies are credited or reserved for in the Parent Company's Balance Sheet.
- (2) The method already mentioned may be adapted and extended by presenting with the Parent Company's Balance Sheet and Profit and Loss Account those of all the Subsidiary Companies.
- (3) The method given under (1) may be amplified by giving in addition to the Balance Sheet and Profit and Loss account of the Holding Company a Summary of Assets and Liabilities of the whole of the Subsidiary concerns taken together.
- (4) The publication of a "Consolidated" Balance Sheet setting forth under their appropriate headings the whole of the assets and liabilities of all the Subsidiaries and of the Parent Company and a "Consolidated" Profit and Loss account showing all the profits and losses. This should be published with the ordinary Balance Sheet under method (1).

A better suggestion appears to be to value Investments in Subsidiaries at-
 Cost \pm subsequent profits/losses — dividends declared

(Simons, 1927: 68)

Ashworth (1925a) acknowledged three methods and Vickery (1928) enumerated four methods, but Vickery's first one was not any form of group accounts but legal form of accounts. Accordingly Vickery's suggestion was substantially three¹⁵⁾.

Ashworth (1925a: 190-1) made his opinion clear that method 5 was the most appropriate, by commenting that method 2 'might be too expensive to adopt, and also the average shareholder would not have the necessary knowledge to enable him to amalgamate the results' and that method 5 'has the advantage of showing quite clearly the relation of the assets and liabilities of the companies as a whole to the capital of the parent company, and the capital held in the subsidiaries by persons other than the parent company'.

5.5 Other contributions

Staub (1925) supported method 5 (presenting consolidated balance sheet instead of the holding company's legal entity-based accounts) and, although Stamp (1925a) proposed the adoption of method 6 (consolidated accounts together with legal entity-based accounts), we will see that he considered method 5 more desirable. Staub, an American, was a member

15) Actual words by Vickery (1928: 295) are as follows.

- (1) To publish the Balance Sheet and Profit and Loss account of the holding company, showing the interest in subsidiary companies as an investment (at or below cost) in the Balance Sheet of the holding company. The profits of the holding company include the dividends actually received from the subsidiary companies.
- (2) To publish the accounts of holding company in detail as in (1), accompanied by separate schedules showing the Balance Sheet and Profit and Loss account of each of the subsidiary companies.
- (3) To publish the accounts of the holding company in detail as in (1), together with a separate schedule summarising the combined assets and liabilities of all the subsidiary undertakings. In the event of there being outside shareholders in any of the subsidiary companies, their respective interests should be shown as liabilities.
- (4) To publish the accounts of the holding company in detail as in (1), together with a consolidated Balance Sheet of the whole undertaking amalgamating the assets and liabilities of all the subsidiary companies with those of the holding company, and a consolidated Profit and Loss Account including the profits and losses of all the companies. If the holding company does not own the whole of the capital of the subsidiary companies, the consolidated Balance Sheet should show as a liability the total interests of all outside shareholders, including preference shareholders.

of New York State Society of Certified Public Accountants. He promoted the publication of consolidated statements on the ground that

The era of mergers and consolidations in the nineties, of which we are seeing a widespread recurrence today, brought with it a need for setting forth in bird's eye view fashion (or perhaps one should today say airplane view) the financial position and the results of the operations of a business enterprise which includes a number of separate corporate entities. The consolidated balance sheet and the consolidated income account were the response to this need. (Staub, 1925: 654)

Stamp (1925a: 312) contrasts British practice with that in America and concludes 'that the science of making consolidated accounts had not advanced far in this country, though it was well known in America'. Although favouring the US procedure of publishing only a consolidated balance sheet (method 5), he admitted that 'Doubtless the day was not yet very near when such statements could be appropriately presented in place of the present form, but as auxiliary means of exposing the facts [method 6] they were invaluable' (Stamp, 1925a: 312).

Those two cases were therefore published in Britain that promoted exclusively the adoption of either method 5 or method 6. However, on the ground that Staub was an American accountant and that Stamp was not an accountant¹⁶⁾, it is considered in this study that the third attitude (5.5) does not represent British accountancy professions' attitude towards group accounting during the period from 1900 to 1929.

6 Explaining support for the equity method

It has been seen above that there were two attitudes, concerning the adoption of group accounting, held by British accountancy profession from 1900 to 1929. One pattern of thought was in support of the equity method (5.2) and the other was an acknowledgement of the existence of a number of acceptable ways of accounting for groups of companies (5.3). There were five literatures which preferred to multiple solutions, of which three proposed the equity method as one of the alternatives. Adding the three literatures to those of the first attitude, there were totally eight literatures supported the equity method. In other

16) For the biography of Josiah Charles Stamp (1880-1941), see Beveridge (1959) and Bywater (1984).

words, of all literatures investigated in this study, 80.0% (=8/10) of the literatures which covered the topic of group accounting and formed either the two attitudes proposed the equity method as an appropriate method during this period.

Why did a number of British accountants support the equity method from 1900 to 1929?

6.1 Influence of Dickinson

In exploring a reason for the supportive attitude of the accountancy profession for the equity method in Britain from 1900 to 1929, it seems that Dicksee's *Auditing: Practical Manual for Auditors* contains important clues. A large part of the chapter on group accounting in Dicksee's *Auditing* consists of extracts from Dickinson (1904). Dicksee appears to defer to Dickinson when 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 view there expressed represent the best accountancy practice' (Dicksee, 1924: 290).

Amongst the extracted paragraphs from Dickinson (1904), two powerful, modern arguments in support of the equity method are presented. First, the need to remove opportunities from managements to abuse their discretion was noted.

If this principle [equity accounting] be not insisted upon, it is within the power of the directors of the holding company to regulate its Profits according not to facts, but to their own wishes, by distributing or withholding dividends of the subsidiary companies; or even to largely overstate the Profits of the whole group by declaring large dividends in those sub-companies which have made Profits, while entirely omitting to make provision for Losses which have been made by other companies in the group. (Dickinson, 1904: 189-190)

Second, the need for published financial reports to reflect changes in values was stated.

It is doubtful whether there is any existing law which could legally require a corporation to make up its Statement of Profits on the basis here suggested, but possibly it may eventually be found that the ordinary rule referred to at the commencement of this paper, of a reasonable valuation of Assets, may be made to

cover this point for the following reasons:

... On general principle, therefore, that a Profit and Loss Account should take into account all Profits or Losses resulting from the trading operations, but should not 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 Profits or Losses made in operating the subsidiary companies. (Dickinson, 1904: 190)

Of key importance for this paper is the fact that Dicksee chose to quote neither Dickinson (1905) nor Dickinson (1906), but instead reproduced substantial extracts from Dickinson (1904). As already mentioned, Dickinson wrote three papers which are considered today as the earliest clear writings on group accounting (Dickinson, 1904, 1905, 1906). It was also mentioned that all of the three papers were reprinted in British journals in the same years. In other words, the three papers were easily accessible to British accountants of the day. It can be well assumed that Dicksee was acquainted with all the three papers. Dicksee's decision to quote from Dickinson (1904) can be considered as intentional choice.

Dickinson (1905) and Dickinson (1906) explicitly favoured the consolidation method of group accounting, whereas this was not the case in Dickinson (1904). Dicksee did not state why he had chosen to reproduce extracts only from Dickinson (1904). However, the fact that Dicksee quoted Dickinson (1904) and that he neglected to cite either of Dickinson's two other papers can be said to indicate Dicksee's attitude towards group accounting very clearly.

The fact that Dickinson was an influential figure amongst the accountancy profession of the day¹⁷⁾, is likely to have explained why Dicksee chose to quote his 1904 publication as authoritative support for the equity method which he, himself, favoured.

17) Arthur Lowes Dickinson (1859-1935) was a British accountant but practiced for some time in America. He and William J. Filbert of US Steel together produced the accounts of US Steel for 1902, which contain the best-known early example of a consolidated statement, and the accounts attracted widespread acclaim as a breakthrough towards full and meaningful financial disclosure (Edwards, 1984b: 104). Dickinson returned to Britain in 1913 and remained a partner in the London office of Price, Waterhouse until his retirement in 1923 (Edwards, 1984b: 104). He was a member of the ICAEW's council, 1914-28, and maintained an active involvement in professional developments (Edwards, 1984b: 104).

6.2 Influence of Dicksee

It is important that Dicksee was also highly influential figure. Kitchen and Parker (1984) stated that 'In his day, Lawrence Dicksee's contribution to education and ideas in accounting was an enormous one'. Dicksee was 'the most prolific and influential of the early British writers on accounting (as distinct from bookkeeping) and auditing and the first professor of accounting (part-time) in a British university' (Parker, 1984: 59).

His *Auditing: Practical Manual for Auditors* was widely used by students and practitioners and highly respected. 'Fourteen British editions were published during Dicksee's lifetime, the fifteenth was in preparation when he died' and 'the book found a market also in the United States' (Kitchen and Parker, 1984). The fact that what Dicksee said in his *Auditing* carried a lot of weight may be a reason which explains the support for the equity method by other accountants and writers.

It is noted here that Dicksee has written his section on group accounting in the American version much earlier than his British version. It has been revealed that Dicksee's *Auditing* has contained section of group accounting beginning with the 13th edition in 1924. However, when turning an eye to the American edition of *Auditing*, he dealt with the topic commencing with the 2nd American edition in 1909. The sentences were almost the same. In other words, as early as in 1909, Dicksee had already decided his attitude towards group accounting¹⁸⁾. At the time of publishing the 13th edition of his book in Britain, he already had fifteen years in which to develop his ideas.

It is also probably relevant to note that Dicksee's 13th British edition was published almost immediately after Garnsey's lecture given to the London members of the ICAEW. Dicksee referred to the lecture as follows.

More recently the subject of Holding Companies and their Published Accounts has been dealt with by Sir Gilbert Garnsey, K.B.E., F.C.A., in a paper read by him before the London members of the Institute of Chartered Accountants on 1st December 1922, a full report of which appeared in *The Accountant* of 6th and 13th January 1923. (Dicksee, 1924: 295)

18) The American versions of *Auditing* were edited by Robert H. Montgomery (Kitchen and Parker, 1984) but Dicksee was clearly involved, as he stated in preface.

It could be possible to imagine that Dicksee's insertion of a group accounting section in British edition in 1924 was in response from him to Garnsey's lecture. Dicksee acknowledged the lecture in his book as an event that had taken place, but he did not further introduce Garnsey's discussion. Instead, he reprinted extracts from his American edition written as early as 1909 which supported the equity method. Dicksee's decision is perhaps indicative of the fact that, given the amount of time he had reflected on these issues, he had much confidence in the particular conclusion he had reached.

6.3 Influence of D'Arcy Cooper

The important role played by D'Arcy Cooper, who had considerable experience as an auditor of large companies before joining top management at Lever Brothers, in the 1920s is today described as follows.

Cooper's letters written to the Times (3 June 1925) and the Greene Committee (24 June 1925), and verbal evidence given before the Greene Committee, strongly opposed the view, favoured by many accountants, that companies should be legally required to publish consolidated accounts. ... it is likely that Cooper's arguments helped delay, until 1948, the introduction of a legal requirement for companies to publish group accounts.

(Edwards, 1984a: 784)

Lever Brothers, of which D'Arcy Cooper was the chairman since 1925, was known as a famous user of the equity method. Simons reprinted the company's Balance Sheet in his book in 1927 (Simons, 1927: 164). Camfferman and Zeff (2003: 186) reported that there was 'the long-held belief within Unilever that consolidated balance sheets would be misleading'.

There seems no doubt that his view was influential at the time. Indeed, he seemed quite confident about what he proposed. His confidence can be seen from the following interchange between the members of the Greene Committee which is worth quoting in some detail. The Committee asked questions and D'Arcy Cooper answered them.

Where an auditor is auditing the accounts of a parent company he will bring in the shares of the subsidiary companies at some figure, probably at cost; but do

you mean to say that before he passes a balance sheet containing as an asset the shares of a subsidiary taken at cost, he would look at the balance sheet of the subsidiary to see whether the shares were worth cost, and, if not worth cost, that he would alter the figures with regard to the subsidiary accordingly? -That is in fact what is done. (D'Arcy Cooper, 1925c: Qu. 3764)

They write down the shares in the holding companies' balance sheet? -No, I do not say that. But if they have an associated company showing a loss they say to the parent company: "You must bear your proportion of the loss," or write down the shares in the associated company. (D'Arcy Cooper, 1925c: Qu. 3765)

They would either write down the value or bring in an item on the left-hand side of the balance sheet for depreciation, or something of that kind? -Yes. (D'Arcy Cooper, 1925c: Qu. 3766)

And that would be based on their investigation of the accounts of the subsidiary company? -Yes. (D'Arcy Cooper, 1925c: Qu. 3767)

Is that the common practice? - I have never known a case where it was not done, and I have had some experience of holding companies. I do not see how they can certify the balance sheet as being correct if there are shares in a company which shows a heavy loss and which has not been reserved for, unless they ask the company to write down that loss. I am talking about the commercial practice. I am perfectly well aware that you are not bound to provide for a capital loss, only trading losses. (D'Arcy Cooper, 1925c: Qu. 3768)

The following public statements demonstrate D'Arcy Cooper's criticism of the publication of consolidated accounts and his support for the use of the equity method:

I see no useful purpose in producing an amalgamated balance sheet which would be neither fish, flesh, fowl, nor good red herring. On the contrary, in my opinion it could only do harm. (D'Arcy Cooper, 1925a: 18)

I strongly support the present practice of holding Companies which is to take to the credit of Profit and Loss Account either the dividends declared or 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, and any legislation which may be necessary to enforce such a practice would, in my opinion, be sound and wise. (D'Arcy Cooper, 1925b: lx)

7 Conclusion

It was shown that British accountants and writers were not necessarily reluctant to tackle the problem, as previously believed, and that a number of practitioners discussed the issue in some depth. It was seen that, although they might have been unwilling to recommend the adoption of consolidated accounts, they made serious efforts to solve the problem of holding company's accounts through the equity method or other group accounting methods. Above all, it was found that the equity method was favoured by them. These attitudes and preferences can be explained by path dependency as a natural consequence of their legal preoccupation: they inclined towards the adoption of group accounting methods consistent with the traditional, legal entity based accounts rather than consolidated accounts.

The finding, together with the evidences presented by Edwards and Webb (1984) for the British holding companies' group accounting practices, implicates an important amendment for the prevailing understanding on the development of group accounting in the UK that it made a 'slow progress' compared to the experience in the US. Both company directors and the accountancy profession between 1900 and 1929 were in support of the equity method. The development of group accounting in the UK was not a case of 'slow progress', but it was a process that was seriously and intentionally brought forward.

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