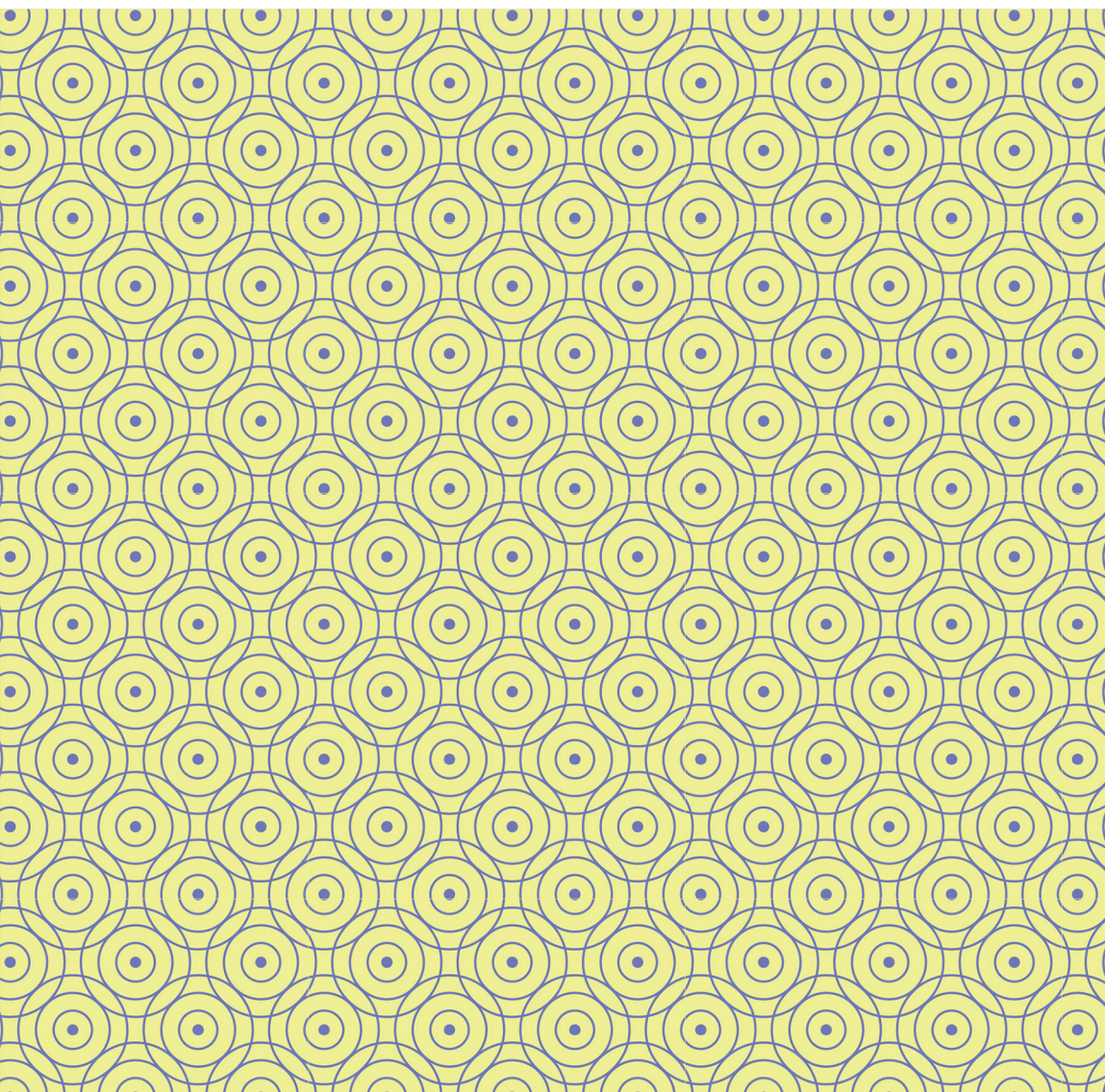


Historical Developments in the Accountancy Profession, Financial Reporting, and Accounting Theory

C. Richard
Baker
Martin E.
Persson

Studies in the
Development
of Accounting
Thought

Volume 25



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

STUDIES IN THE DEVELOPMENT OF ACCOUNTING THOUGHT

Series Editor: Gary J. Previts, Case Western Reserve University, USA

Previous Volumes:

- Volume 1: Henry Rand Hatfield: Humanist, Scholar, and Accounting Educator, by Stephen A. Zeff
- Volume 2: Foundations for the Future: The AICPA from 1980–1995, by Philip B. Chenok and Adam Snyder
- Volume 3: The Story of a Fortunate Man: Reminiscences and Recollections of 53 Years of Professional Accounting, by Maurice E. Peloubet, ed. Alfred R. Roberts
- Volume 4: Development of the Income Smoothing Literature 1893–1998: A Focus on the United States, by Dale A. Buckmaster
- Volume 5: The Murphy–Kirk–Beresford Correspondence, 1982–1996: Commentary on the Development of Financial Accounting Standards, ed. Robert J. Bricker and Gary J. Previts
- Volume 6: Doing Accounting History: Contributions to the Development of Accounting Thought, ed. Richard K. Fleischman, Vaughan S. Radcliffe, and Paul A. Shoemaker
- Volume 7: Accounting: How to Meet the Challenges of Relevance and Regulation, by Eugene H. Flegm
- Volume 8: The Life and Writings of Stuart Chase (1888–1985): From an Accountant’s Perspective, by Richard Vangermeersch
- Volume 9: Seekers of Truth: The Scottish Founders of Modern Public Accountancy, by T. A. Lee
- Volume 10: The Contributions of John Lansing Carey to the Profession of Accountancy, by Laurie A. Barfitt
- Volume 11: Abraham J. (Abe) Briloff: A Biography, by E. Richard Criscione
- Volume 12: Early Warning and Quick Response: Accounting in the Twenty-First Century, by David Mosso
- Volume 13: Gerhard G. Mueller: Father of International Accounting Education, Dale L. Flesher
- Volume 14A: A Global History of Accounting, Financial Reporting and Public Policy: Europe, ed. Gary Previts, Peter Walton, and Peter Wolnizer
- Volume 14B: A Global History of Accounting, Financial Reporting and Public Policy: Americas, ed. Gary Previts, Peter Walton, and Peter Wolnizer
- Volume 14C: A Global History of Accounting, Financial Reporting and Public Policy: Asia and Oceania, ed. Gary Previts, Peter Walton, and Peter Wolnizer
- Volume 14D: A Global History of Accounting, Financial Reporting and Public Policy: Middle East and Africa, ed. Gary Previts, Peter Walton, and Peter Wolnizer
- Volume 15: Understanding Accounting Academic Research: Before and After Sarbanes–Oxley, by Stephen R. Moehrle and Jennifer Reynolds-Moehrle
- Volume 16: The Big Four and the Development of the Accounting Profession in China, by Paul L. Gillis
- Volume 17: Management Accounting at the Hudson’s Bay Company: From Quill Pen to Digitization, by Gary Spraakman
- Volume 18: Japanese Management Accounting: Cultural and Institutional Significance of Cost Designing, by Hiroshi Okano
- Volume 19: Count Down: The Past, Present, and Uncertain Future of the Big Four Accounting Firms, by Jim Peterson
- Volume 20: A. C. Littleton’s Final Thoughts on Accounting: A Collection of Unpublished Essays, by Martin E. Persson
- Volume 21: Understanding Mattessich and Ijiri: A Study of Accounting Thought, by Nohora Garcia
- Volume 22: William A. Paton: A Study of his Accounting Thought, by Kelly L. Williams and Howard J. Lawrence
- Volume 23: Harold Cecil Edey: A Collection of Unpublished Material from a 20th Century Accounting Reformer, by Martin E. Persson
- Volume 24: Persistence and Vigilance: A View of Ford Motor Company’s Accounting over its First Fifty Years, ed. Yvette J. Lazdowski

To order volumes in this series, please visit <books.emeraldinsight.com/page/series-detail/Studies-in-the-Development-of-Accounting-Thought/>

STUDIES IN THE DEVELOPMENT OF
ACCOUNTING THOUGHT VOLUME 25

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

BY

C. RICHARD BAKER

Adelphi University, USA

&

MARTIN E. PERSSON

University of Illinois at Urbana-Champaign, USA



United Kingdom – North America – Japan
India – Malaysia – China

Emerald Publishing Limited
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2022

Copyright © 2022 C. Richard Baker and Martin E. Persson. Published under exclusive license by Emerald Publishing Limited.

Reprints and permissions service

Contact: permissions@emeraldinsight.com

No part of this book may be reproduced, stored in a retrieval system, transmitted in any form or by any means electronic, mechanical, photocopying, recording or otherwise without either the prior written permission of the publisher or a licence permitting restricted copying issued in the UK by The Copyright Licensing Agency and in the USA by The Copyright Clearance Center. Any opinions expressed in the chapters are those of the authors. Whilst Emerald makes every effort to ensure the quality and accuracy of its content, Emerald makes no representation implied or otherwise, as to the chapters' suitability and application and disclaims any warranties, express or implied, to their use.

British Library Cataloguing in Publication Data

A catalogue record for this book is available from the British Library

ISBN: 978-1-80117-805-1 (Print)

ISBN: 978-1-80117-804-4 (Online)

ISBN: 978-1-80117-806-8 (Epub)

ISSN: 1479-3504 (Series)



ISOQAR certified
Management System,
awarded to Emerald
for adherence to
Environmental
standard
ISO 14001:2004.

Certificate Number 1985
ISO 14001



INVESTOR IN PEOPLE

CONTENTS

<i>List of Figures</i>	<i>vii</i>
<i>List of Tables</i>	<i>ix</i>
<i>About the Authors</i>	<i>xi</i>
<i>Foreword</i>	<i>xiii</i>
<i>Acknowledgments</i>	<i>xvii</i>

SECTION 1: FINANCIAL REPORTING AND THE ACCOUNTANCY PROFESSION

Chapter 1 Contrasting Institutional Logics: Historical Development of the Public Accountancy Professions in the United Kingdom and France	3
Chapter 2 A Brief History of the United States Standard Auditor's Report	19
Chapter 3 The History of Accounting Standards Setting in the United States Prior to the Creation of the Committee on Accounting Procedure	35
Chapter 4 The Influence of Accounting Theory on the FASB Conceptual Framework	51
Chapter 5 The Role of Financial Reporting in Corporate Governance	67

SECTION 2: ACCOUNTING MEASUREMENTS AND THEORY

Chapter 6 A Genealogy of Positivist and Critical Accounting Research	83
Chapter 7 Principles Versus Rules-based Accounting Standards	101
Chapter 8 The Concept of Prudence in Accounting	119

Chapter 9 The Challenge of Measuring Intangibles: Insights from Brand Valuation	133
Chapter 10 The Concept of Measurement in Financial Reporting	145
<i>Appendix 1: American Institute of Accountants, Incorporated under the Laws of D.C.</i>	159
<i>Appendix 2: Statement of Financial Accounting Concepts</i>	167
<i>References</i>	169
<i>Index</i>	183

LIST OF FIGURES

Fig. 1.	Institutional Logics in the Regulatory Environment.	7
Fig. 2.	Classification of Countries Based on Institutional Logics.	7
Fig. 3.	Institutional Logics Pertaining to the Regulation of the Public Accountancy Profession in the United Kingdom.	10
Fig. 4.	Institutional Logics Pertaining to the Regulation of the Public Accountancy Profession in France.	15
Fig. 5.	Theoretical Map of the Conceptual Framework.	64
Fig. 6.	Historical Model of Financial Reporting (Approximately 1400 AD–1850 AD).	72
Fig. 7.	The Accepted Model of Financial Reporting (Approximately 1850 AD–Present).	73
Fig. 8.	Actual Model of Financial Reporting.	75
Fig. 9.	A New Model of Financial Reporting.	75
Fig. 10.	Enron’s Use of SPEs.	106
Fig. 11.	The Raptor Structure.	108
Fig. 12.	Valuation Approaches Schematic.	141

This page intentionally left blank

LIST OF TABLES

Table 1. Contrasting Institutional Logics Pertaining to the Regulation of the Public Accountancy Profession in the United Kingdom and France.	16
Table 2. Accounting Theorists and Their Positions.	66
Table 3. Effects of November 2001 Restatements (Amounts in Millions).	107
Table 4. Summary of Brand Valuation Approaches.	137
Table 5. Example of Interbrand Brand Valuation Methodology.	138
Table 6. Comparison of Brand Values of Interbrand and Brand Finance.	140
Table 7. Regression Analysis.	142
Table 8. Stock Market Price Analysis.	143
Table 9. IASB's Conceptual Framework Project – Measurement Basis Candidates.	149

ABOUT THE AUTHORS

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

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

This page intentionally left blank

FOREWORD

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

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

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

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

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

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

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

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

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

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

NOTES

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

This page intentionally left blank

ACKNOWLEDGMENTS

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

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