The Development of Group Accounting in the United Kingdom: Setting the Scene

Eri Kanamori

Contents

Abstract

The object of this paper is to make preparation for a study of the development of group accounting in the United Kingdom. In the first section previous literature on the topic is briefly surveyed. The concept of Path-dependency is introduced in the next section, as this is intended to serve as the theoretical framework for the study. Third section identifies the main basic problems associated with the preparation of consolidated financial statements, and this is followed by an attempt to seek an implication for the present day as the forth section. Conclusion considers the possible contribution of this study towards historical research in accounting.

1. Previous Literature

It has been the predominant thought of late years that accounting is not only a technical matter of numerical calculation but also an organic phenomenon which is inevitably interdependent with its surrounding contexts[1]. As Peloubet claimed as early as 1953,

… accounting, in and of itself, is little more than a series of not particularly

1) These include political, cultural, and societal parameters to complement traditionally privileged economic factors. As Wiener (1981) emphasized, "the determination to explain all economic phenomena with a self-contained model of purely economic factors pushes much of social life to a dimly lit periphery" (Wiener, 1981: 170).

> complicated equations and mathematical rules and concepts; while the real importance of accounting, its difficulties, its complications and its possibilities for contribution to the social, economic and business life of the country lie in the application of these formulas and concepts to the description, analysis and interpretation of actual and present facts and conditions. (Peloubet, 1953: 13)

In this view of accounting, its contribution to the social, economic and business life depends on the way it describes, analyses and interprets actual and present facts and conditions. As long as accounting, which functions in an active manner like this, can be seen as an organic phenomenon, it is impossible to understand any of accounting methods or principles without determining their backgrounds of the development. In this sense it seems true that history could never be ignored[2]. With its own historical background, which could be closely related to either economic life or socio-political aspect[3], accounting could vary in different countries and times.

If accounting shows its variety just in the same manner as occurs in other organic lives or phenomena, it seems natural that there exist national differences in consolidated accounts. As Parker (1977) pointed out "… accounting theory and practice in relation to consolidated accounts still differ considerably from country to country, even in such advanced industrial nations as the USA, the UK, the Netherlands, the German Federal Republic and France" (Parker, 1977: 203)[4]. For example, Canada and the United States consider the consolidated Financial Statements as the primary statement while in the United Kingdom, the parent company statements are also considered important and are issued to the shareholders along with the consolidated statements (AISG, 1973: para.11). And also, in the United Kingdom the value of the investment in subsidiaries in the holding company's own balance sheet is normally written up to equal the value of the stock

2) This belief will be underpinned in the next section.

3) As stated below, there had been a couple of approaches to an explanation of accounting history and they differ in the emphasis on the factors (socio-political or economic) which narrate the accounting changes.

4) Parker (1977: 203) specified three kinds of differences: differences in the rate of adoption of consolidated accounts; differences in what is published by companies (for example, American companies do not publish the holding company's accounts while in the UK holding company's balance sheet is published as an addition to the consolidated one); and differences in the techniques of consolidation (such as acquisition accounting or merger accounting/pooling of interests, the concept of goodwill on consolidation, equity accounting and proportional consolidation).

dividend capitalized by the subsidiary, while in the United States and Canada the investment in the subsidiary would not be written up for a stock dividend of the subsidiary (AISG, 1973: para.66). McKinnon (1984) suggested that historical and cultural backgrounds were so different in Japan and Anglo-American nations that Anglo-American methods of consolidation failed to reflect adequately the nature of corporate group associations in Japan. In 1990, Price Waterhouse highlighted various differences for consolidation practices in Australia, Canada, France, Germany, Italy, Japan, The Netherlands and UK, comparing to US GAAP (Price Waterhouse, 1990).

Even today, in spite of the continuous efforts toward the international convergence of accounting standards, it is still observed the differences between US Generally Accepted Accounting Principles (GAAP) and International Accounting Standards (IAS) which are doubtlessly affected by UK principles (Bloomer, 1999). In regard to Group Accounting, American standard does not permit the publication of parent company only financial statements while in many other countries in the world there is a requirement to publish the parent financial statements separately (Dion, 1994: 337). Another example is that although under both IAS and US GAAP the basis for determining whether to include an entity as a subsidiary in the consolidated financial statements is control, IAS 27 defines control but U.S. pronouncements have focused on ownership of a majority voting interest (Bloomer, 1999: 46-7). Moreover, International Accounting Standards Board continues to revise its standards for consolidated accounts and decided to present minority interests within equity (IASB, 2003: para.33), but FASB project on consolidation policy and procedures still lies on the table.

In searching for national differences in consolidated accounts and possible explanations for them, many efforts have been made to trace the development process of consolidation accounting in many countries such as the United Kingdom (Kitchen, 1972; Walker, 1978; Edwards and Webb, 1984), the United States (Walker, 1978), Australia (Whittred, 1986), Spain (Mora and Rees, 1998) and Japan (Kawamoto, 2001). Among them, British experience in contrast to American one has been especially well-discovered by the sequential prominent studies (such as Kitchen, 1972; Walker, 1978; Hein, 1978; Edwards and Webb, 1984; Bircher, 1988, Edwards, 1991) and it seems that general agreement has made as to the historical description of consolidated accounts in the United Kingdom: i.e. that it occurred at first in the United States and then followed by the United Kingdom. In the former country, consolidated financial statements were published well before 1900 by many companies such as General Electric Co.'s report in 1894 for the example of industrial company (the railway companies were earlier to set out consolidation practice: Southern Pacific Co's consolidated balance sheet and consolidated profit and loss account were published in 1888 for example[5]). On the other hand, as far as it is confirmed by now, the first example of consolidated accounts in the United Kingdom was prepared by Pearson and Knowles Coal and Iron Co, Ltd. in 1910 (Edwards, 1991: 117-120) and the practice still did not reach the generally accepted level. Even in 1920s, British accountants saw consolidated accounts as only "an invention of the United States" (Company Law Amendment Committee, 1926: Qu.939) and the idea to prepare consolidated statements was novel to business men in the UK and in large measure they reacted at first with indifference or opposition (Robson, 1950: 7). Moreover, a number of the witnesses of the Green Committee were even "quite hostile" to the use of consolidated statements as a means of presenting group accounts (Hein, 1978: 274). However in the Companies Act of 1948, the provisions requiring for consolidated accounts were introduced. In spite of the fact that this legislation was accompanied with allowances for other form of group accounts under special conditions, consolidation accounting was said to be accepted by 74.4% of largest holding companies after the enforcement of the act (Bircher, 1988: 6)[6]

It seems to be possible to assume that the story above is the description accepted by the financial accounting historians (for example, Wilkins, 1979: 16-19, Taylor, 1987: 3-5) and actually it is a matter of fact. What left unclear, for the purpose of this paper, is the interpretation and explanation on why and how it was and still is different from American practice. In the light of the presumption that accounting traced different paths should be different from each other, it is not easy to conclude that British accountants were less developed than American colleagues only because they were late in adoption of consolidated accounts[7]. Therefore, the expression "slow development in Britain" (Kitchen,

5) Aida (1978) examines every statement of railway companies to find the first experience of publishing consolidated statements in America.

6) In 1938/39, 22.5% of the sample companies had voluntarily adopted some form of consolidated financial reporting and in 1944/45 the figure was 32.5% (Bircher, 1988: 5-6).

7) One of the first advocators of consolidated statements was British accountant A.L . Dickinson, and his writings on consolidated accounting is reprinted in British accounting journals only a few months later than American ones (For example, Dickinson (1904) was reprinted as "the Profit of a Company" in the Incorporated Accountants' Journal, November 1904, pp.34-40; Dickinson (1906) as "Notes on Some Problems Relating to the Accounts of Holding Companies", The Accountant, May 19, 1906, pp.647-649:

1972: 114)[8] to explain the time lag between two countries cannot be sustained in this study. There is no criterion to judge whether American practice was superior to other nation's accountancy. It is natural, from this viewpoint, to think that "consolidated statements are indigenous to American financial reporting" (Moonitz, 1951: 10) and that British accountants were in a different setting and took another approach to consolidated accounts.

Before trying to specify how and why the British group accounting penetrates its own development process, it must be noted that there are at least three schools of historical thought in accounting: the economic determinist, the Marxist and the Foucauldian (Boyns et al., 1997: 178). According to Boyns et al., these schools differ as to the emphasis places on the factors which explain the changes in accounting (for example, Foucauldian emphasises on the socio-political context while economic rationalist see economic factors as the most significant). As the authors themselves mentioned, if accounting history is to continue to develop, interchange between members of such schools is likely to be vital, especially since there is no single "correct" methodological approach to historical research (Boyns et al., 1997: 6). In this sense, there is no doubt that taking into consideration a wide variety of factors will be of importance.

For example, the following three actual events apparently seem to be closely interacted: firstly, it is said that consolidated accounts were first created and published by American holding companies; secondly, the form of holding companies played an important part in the United States more than any other county; and finally, the early modern corporation have grown in America whose significance lies in its effectiveness in concentrating the capital funds of many investors under the control and management of a small group of "captains of industry" who use this capital to develop enterprises on the basis of large-scale production (see for example Berle & Means, 1932; Bonbright & Means, 1932; Moonitz, 1951). This raises the necessity to pay attention primarily on economic context[9]. It seems also true, however, that "a change in accounting practice was less

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Dickinson (1905) is a lecture given on 8th March 1905 before the School of Commerce, Accounts, and Finance, New York University). This fact means that the consolidation procedure itself was already known by British profession at the same time American holding companies introduced it.

8) Kitchen (1973) also stated "general progress towards the level of disclosure implied by a fairly drawn set of consolidated accounts was slow" (Kitchen, 1973: 15).

9) The evolution of consolidated accounts has been usually explained from economic events so far. For example, Whittred (1986) pursued the explanation that the rapid spread of consolidated form of reporting in the early 1950s in Australia was caused by developments in the external capital markets and, in

compatible with the cultural values of the British Social system" (Parker, 1977: 206-207), that "British accountants, convinced of their superiority, were not too receptive to American Innovations" (Parker, 1977: 207) and that the legal obligation to publish the holding company's own balance sheet may have acted as a deterrent in Britain to the adoption of consolidated accounts (Dickinson, 1924: 273). Historical interpretation need not be single one but it could be rather complex. Therefore these cultural, societal and legal factors also cannot be ignored in this study on the development of group accounting in the United Kingdom.

2. Path-dependency

As outlined above, underlying this paper is the belief that accounting development is affected by the path it has traced out in the past. From this point of view, it will be examined that British accountants did not drive themselves to catch up with the American practice but created their own development process of group accounting, from their original starting point, which possibly resulted in the difference of consolidated statements in the two countries. The idea that accounting could vary in different countries and times according to its own historical background is so natural that it seems almost unnecessary to explain the significance of that idea in detail. However, it is for certain needed to give a theoretical basis before easily taking it for granted and constructing an accounting history on it.

Path-dependency is the concept adopted here as a basis to believe that accounting emerged in different countries and times could differ. This adoption of the concept is inspired by the works of Geoffrey Hodgson, in particular Hodgson (1993). Although Hodgson (1993), arguing the application to economics of evolutionary ideas from biology, has not completed yet the attempt to construct new economics as the author himself emphasised[10)], its guiding suggestions are clear. Among the wide range of his topics[11)], the

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particular, the market for debt.

10) "It should be emphasized that there is not a well-rounded "alternative" theory here, merely signposts to, and modest suggestions for, the economics of the future… Neoclassical economics took the combined efforts of more than a dozen exceptionally gifted minds over a period of more than ninety years- from the 1860s to the 1950s- before it emerged in its modern form. Likewise, the construction of a new economics is a massive task, and this is no more than a small and partial contribution." (Hodgson, 1993: viii)

11) Hodgson (1993) includes a challenge for Cartesianism, an inclination towards Peirce's "abduction", an application of the biological metaphor and taxonomy of meanings of "economic evolution". It is certain

implication from the analysis of relationship between "optimization" and "evolution" (Hodgson, 1993: ch.13) especially seems of relevance in conducting this historical study. According to Hodgson (1993), the point is that "in an economic context, evolutionary processes do not necessarily lead to- by any reasonable definition- optimal outcomes" (Hodgson, 1993: 198). He argued:

> In a loose sense, processes of natural selection can lead to improvement, because adaptation to the environment does occur. But it is a mistake to go further than this and assume that natural selection is a strong optimizing force. On the contrary, natural selection is always an imperfect instrument, and it can sometimes lead to clearly suboptimal, even disastrous, outcomes. The adaptationist fallacy is the assumption that all adaptations are necessarily functional and (near) optimal. (Hodgson, 1993: 197)

Applied to financial accounting for groups, consolidated statements can be seen as one of accomplishments of "selective success" both in the first half of twentieth century in many countries and in recent movement towards the international convergence of accounting standards in broader area of the world. This observation is not the same, however, as the assumption that evolution of consolidated balance sheets and consolidated profit and loss statements presented increasing progress and efficiency in financial reporting, from the lower to the higher form of accounts, and from the inferior to the superior. According to Hodgson (1993), the process of "natural selection" in modern biology does not even necessarily lead to survival, and the mere fact of survival, even to a numerous and sustained extent, need not always imply efficiency at all (Hodgson, 1993: 201). This viewpoint is addressed completely by Walker (1976) when he wrote:

> consolidated statements are not the *only* way of communicating information to shareholders or creditors. There are no grounds for believing that they are

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that these topics are important in the sense Hodgson constructed his theory on the ground of them. However, they are not examined in this study partly due to limitations of space and partly because it is agreed that accounting historians must not become totally dependent upon such "giants" as Marx, Foucault, Habermas, and Derrida as the sole repository for the insights, but add to them with insights of our own (Fleischman and Radcliffe, 2003: 12).

necessarily the *optimum* way of communicating information to any one group of users. (Walker, 1976: 113)

In addition to this, even if the consolidation accounting ever could be justified as relatively superior practice with greater efficiency, it will raise another problem, in the context of this paper, of whether it is valid or not that British accountants behaved rationally towards most efficient institution to maximize their profit. If maximizing behaviour by British accountants could be proposed, it is undisputable that British group accountancy only imitated American practice to maintain itself in evolutionary competition. In that case, chartered accountants can be seen to have traced just the same path American accountancy had pioneered, and the difference lies simply in that they stepped behind American counterpart. But Hodgson casted a doubt upon the assumption of rational economic agent[12].

Hodgson (1993) rejects to consider economic evolution either as a promoter of rational maximization or as a promoter of efficiency[13]. And he enumerats seven field of research which demonstrate his opinion: (1) selection and survival, (2) fecundity and new entrants, (3) path dependency, (4) lock-in and chreodic development, (5) context and frequency dependence, (6) multiple or shifting adaptive peaks, (7) critical mass and intransitivity. He considers every stream of thoughts above can lead to the conclusion that the nineteenth-century idea of unhampered evolution necessarily reaching optimal outcomes is misconceived (Hodgson, 1993: 212).

Though he does not specify which field is the most prominent and in fact it can be observed that these fields are overlapping in many aspects each other, path-dependency seems one which is beyond any of others. The reason appears in his main work of “bringing life back into economics” which sets institutions[14] as units of analysis and pays attention to organic evolution of institutions (Hodgson, 1993: ch.16). He argues:

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12) He discussed “economic man” critically more in detail in Hodgson (1988).

13) Hodgson (1993) refers to Friedman (1953) and Hayek (1982) for examples of misapprehension that economic evolution promotes rational maximization by economic agents such as firms and individuals and North (1981), Williamson (1975, 1985) and Jensen and Meckling (1979) for examples that see economic evolution as a promoter of efficiency in such economic institutions as industrial organizations and firms.

14) Institutions are “the commonly held patterns of behaviour and habits of thought, of a routinized and durable nature, that are associated with people interacting in groups or larger collectives” (Hodgson, 1993: 253).

> While institutional variation and differentiation occurs much more rapidly and extensively than mutation in the biological world, nevertheless, the observed inertia of cultural and institutional evolution suggests that there are strong stabilizing forces at work. Thus it is more reasonable to conjecture that relatively stable, chreodic-type[15] development is more evocative of institutional evolution than the more traditional and gradualist Darwinian picture of sharpened adaptation in face of a ceaseless and formidable struggle for survival… If institutional and industrial development are typically chreodic, … as selective processes will not ensure a rigorous drive towards greater efficiency, and chreodic development will exhibit a path of development more determined by its past than by its adaptation to the present, there are no grounds for proclaiming that evolution will produce the best of all possible worlds. (Hodgson, 1993: 257-8)

Thus, Hodgson (1993) considers institutional evolution has a path-dependent and arbitrary quality, depending on initial conditions. As it can be said that, in the history of social events or institutions, initial conditions themselves are the outcomes from the paths they have experienced, path-dependency can be seen the most important notion of the seven field above in the context of Hodgson (1993). It should be remembered that Hodgson applied biology to economics because "above all, economics and biology both address complex systems, with abundant path-dependent developments" (Hodgson, 1993: 266).

A system has path-dependency when its development is affected by the path it has traced out in the past (Hodgson, 1993: 203). As perused above, when path-dependency exists, a system will not necessarily gravitate to the same equilibrium, and thus history could not be ignored. The consolidation accounting as a result of a continuing evolutionary process is also likely to be path dependent, which is the belief of this study. It can get locked into given path of development, excluding a host of other, perhaps more "efficient" or desirable possibilities. "After all, even from an evolutionary perspective there is no inevitability of progress" (Hodgson, 1993: 6). In this sense consolidated statements are not necessarily a superior form of reporting but more closer to "product of compromise" (Walker, 1978b: 108). Therefore, it can be repeated that, in the context of

15) A "chreod" (from the Greek *chre*, meaning it is fated or necessary, and *hodos*, a path) is a relatively stable trajectory of development for a species (Hodgson, 1993: 206).

this study, the development of group accounting in the United Kingdom experienced different path from that in other countries (particularly in the United States) and that historical examination on how and why it was different from other practices is indispensable.

3. Variation of Consolidated Statements

As previously referred, there have been differences between American and British consolidation practice. Before examining how and why they differ from each other, it will be useful to consider the variation of consolidated accounts. The process of consolidation involves complex procedures which necessitate interpretations and judgments concerning nature of groups. This complexity usually results in the different types of consolidated financial statements. In this section, the methods and concepts for consolidation will be examined which is fundamental to analyse consolidated balance sheets and consolidated profit and loss statements.

In consolidating accounts of parent company and of its subsidiaries, it is well-known that there are two approaches in purely theoretical sense: full consolidation and proportionate consolidation. According to Bierman, Jr. (1992), full consolidation and proportionate consolidation are interpreted as follows:

> [Full consolidation is the method in which] all the assets and liabilities of the investee firm are added to those of the investor firm. … Proportionate consolidation [is the method] in which any material investment in common stock by a corporation gives rise to the need to consolidate. (Bierman, Jr., 1992: 5)

A simple example, as extracted from Wolk, Tearney and Dodd (2001: 689), compares full consolidation with proportionate consolidation where Parent Company has acquired 80 percent of Sub Company at book value.

Exhibit 1-1

	Parent Company	Sub Company	Full Consolidation	Proportionate Consolidation
Assets	10,000	6,000	16,000	14,800
Investment in 80% of Sub Company	4,000*	-----	-----	-----
Total	14,000	6,000	16,000	14,800
Liabilities	6,000	1,000	7,000	6,800
Stockholders' equity	8,000	5,000	8,000	8,000
Minority Interest	----	----	1,000	----
Total	14,000	6,000	16,000	14,800

* In this example the investee was acquired at book value, which is also assumed to equal market value. As with full consolidation, proportionate consolidation would value assets and liabilities at the acquired (market) value, which may result in goodwill appearing on the proportionately consolidated balance sheet.

(Source; Wolk, Tearney and Dodd (2001), p.689)

It can be said, therefore, that the choice between full and proportionate consolidation is the matter of whether or not the minority interest should be included in the consolidated financial statements. Under the full consolidation the minority interest is integrated with parent's interest in the consolidated statements, while under the proportionate consolidation only the interest of the parent company is exclusively reflected in the statements.

Obviously, these accounting methods of consolidation are closely associated with what is called concepts of consolidated financial statements (economic unit concept, parent company concept and proportionate consolidation concept) or consolidation theory (entity theory[16), proprietary theory and parent company theory)[17). Under the economic unit concept or entity theory, "the assets, liabilities, revenues, expenses, gains, and losses of the various component entities are the assets, liabilities, revenues, expenses, gains, and losses of the consolidated entity" (FASB, 1991: para.63). When any of subsidiaries are partially owned, "both the controlling and the noncontrolling interests are part of the proprietary group of the consolidated entity, even though the noncontrolling stockholders' ownership interests relate only to the affiliates whose shares they own" (FASB, 1991: para.63). It is clear from these descriptions, that economic unit concept or entity theory adopts full consolidation method of accounting.

On the other hand, Financial Accounting Standards Board in the US stated, in contrast to the economic unit concept, that under proportionate consolidation concept, "only the parent's share of a subsidiary's assets, liabilities, revenues, expenses, gains, and losses is included in the consolidated financial statements" (FASB, 1991: para.114). Since "under proportionate consolidation, the noncontrolling (minority) interest is not presented" (FASB, 1991: para.115), proportionate consolidation concept or proprietary theory always leads to adoption of proportionate consolidation[18). Therefore, entity theory and proprietary theory must go counter each other.

Parent company concept or parent company theory is considered to reflect current consolidation practices and to be a mixture of entity theory and proprietary theory. Current practices in any countries are based on both full and proportionate consolidation. They are not consistent theories in the sense that at one hand the minority interest subsidiaries' assets, liabilities, revenues, and expenses constitutes the elements of consolidated statements, but the minority interest in the income, equity and goodwill is excluded from consolidation at the other. In other words, assets, liabilities, revenues and expenses are fully consolidated while income, equity and goodwill are only proportionally

16) The entity theory was popularized by Moonitz (1951).

17) More precisely, Baxter and Spinney (1975) proposed four concepts: proprietary, parent company, parent company extension and entity. The parent company extension concepts is an effort to capture more features of the entity concept than parent concept.

18) Since "under proportionate consolidation, the financial statements are those of the parent company modified by substituting (in a strict sense) only the parent's proportionate share of its subsidiaries' assets, liabilities, revenues, expenses, gains, and losses in place of the parent's investments in and gains or losses from investments in subsidiaries" (FASB, 1991: par.117), proportionate consolidation has the potential as "a replacement for the equity method" (FASB, 1991: para.136) or "an expansion of the equity method" (FASB, 1991: 118).

consolidated[19]. Baxter and Spinney (1975: 32) introduced a continuum of consolidation theories where the proprietary theory represented one extreme and the entity theory at the other extreme, with parent company and parent company extension concepts between them[20].

Proprietary	Parent company	Parent company extension	Entity

Continuum of consolidation theories

4. An Implication for the Present Consolidation Accounting

In 2003, International Accounting Standards Board, on which British accountancy exerts an influence beyond doubt, amended IAS 27. New IAS 27 requires that minority interests shall be presented in the consolidated balance sheet within equity (IASB, 2003: par.33) and that intragroup balances, transactions, income and expenses shall be eliminated in full (IASB, 2003: para24). Examined from the Table 1-1 which summarizes and compares in chart form the underlying ideas of each concept and some accounting procedures that follow from them, these alterations can be seen as a shift toward entity concept[21]. It is obvious because "under the economic unit concept, a noncontrolling interest is a part of the ownership equity in the entire economic unit- although it is an equity interest in only a part of the whole" (FASB, 1991: para.68) and "the entire intercompany transaction is eliminated in preparing consolidated financial statements" (FASB, 1991: para.74).

US position is a contrast to this transferal. FASB's project to reconsider the existing standards on accounting for consolidation has long been ineffective in spite of some academic works supporting entity concept (Beckman, 1995; Nurnberg, 2001)[22]. For

19) See Baker, Lembke and King (1996) for the particularly clear discussion by using diagrams.

20) Though parent company (extension) theory lies between two extremes, it should be noted that current practices are closer to proprietary theory. According to FASB, both the parent theory and the proprietary theory are based on the same assumption that the reporting entity is not the group as a whole, but the parent company itself. The two are different only in that the "proportionate consolidation is considered the purest form of the parent company theory" (FASB, 1991: 118).

21) In 1976, IAS3 stated "the minority interest in the equity of consolidated companies should be classified in the consolidated balance sheet as a separate item and should not be shown as part of stockholders' equity" (IAS3, para.43).

22) In Beckman (1995), the review and synthesis of the financial economics literature on corporate control

example, US GAAP still focuses on ownership of a majority voting interest (ARB51, para.2), whereas "amendments to UK Companies Act in 1989 implemented the requirements of the Seventh Directive by changing British Legislation to reflect a new definition of subsidiary based on control rather than on equity share ownership" (FASB, 1991: para.45).

This fact indicates that if entity concept ever brings consolidation accounting to "completion of its evolution", UK practice is much "advanced" than US counterpart. It was claimed that "the practice in Great Britain is in its infancy" eighty years ago, but now it is seemingly in maturity!

Obviously this is not the interpretation of this study. As clarified above, underlying the belief in this paper is that if British and American accountancies experienced each different path in developing financial accounting for group, consolidation accounting in two countries could be different. Neither of them is more progressed, but they just differ from each other. Only historical inspection can reveal a reason for the difference. As Walker (1978b) claimed:

> With this background North American and British accountants developed differing rationales for the presentation of consolidated statements. To American (and Canadian) accountants, consolidated reports were reports on holding company organizations, and were improvements on (and substitutes for) the reports of parent companies. To British accountants, consolidated statements were one way of amplifying the representations contained in parent company reports- and support for the use of these documents (rather than other forms of group accounts) stemmed from a belief that they were the best way of supplying information to a variety of users. The current diversity of consolidation rules and practices appears in a large measure to be attributable to long-standing differences in view about the role and status of consolidated reporting. (Walker, 1978b: 100)

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transactions came out at the support for the economic unit concept. In Nurnberg (2001), the desirability of consistent use of the entity theory for four consolidated statements (e.g. consolidated income statement, consolidated balance sheet, consolidated retained earnings statement and consolidated cash flow statement) was demonstrated. At the other hand, Rosenfield and Rubin (1986) sees proportionate consolidation the only sound solution to the problem of how to treat minority stockholdings in consolidation. Birman, Jr. (1992) also concludes that the financial statements of corporations consolidated on a proportionate basis provide financial information useful to financial analysts.

Table1-1 Comparison of Concepts of Consolidated Financial Statements

Accounting Policy Issue	Economic Unit Concept	Proportionate Consolidation
Description of the reporting entity for which consolidated statements are provided	A business enterprise comprising two or more legal entities- a parent and its subsidiaries.	The parent entity plus the undivided interests of the parent's stockholders in the net assets of the parent's subsidiaries.
Conditions for consolidation	The Parent has the ability to control another entity- the ability to establish the other entity's operating and financing policies and thus direct its economic activities in essentially the same way the parent could if it engaged in similar activities directly, thereby benefiting the economic unit of which both are part.	The parent owns a majority voting interest and a majority equity interest in an other legal entity.
Description of consolidated financial statements	An aggregation of the assets, liabilities, equity, revenues, and expenses of the business enterprise comprising the parent and its subsidiaries.	Modified financial statements of the parent entity, with the parent's investments in and gains or losses on investments in subsidiaries replaced by the parent's share of the subsidiaries' assets, liabilities, revenues, and expenses.
Description of minority (noncontrolling) interest	Part of ownership of the consolidated entity.	Minority interest and its proportionate share of the subsidiary's assets, liabilities, revenues, and expenses are excluded from the reporting entity's financial statements.
Classification of minority (noncontrolling) interest in the consolidated balance sheet	Classified within ownership equity	Excluded entirely.
Classification of minority (noncontrolling) interest in the consolidated income statement	An apprtionment of net income or loss	Excluded entirely.
Elimination of intercompany transactions	All intercompany assets, liabilities, revenues, and expenses are eliminated.	Eliminate intercompany assets, liabilities, revenues, and expenses based on parent's proportionate share of subsidiary.

Elimination of profits and losses on intercompany transactions	All intercompany profits or losses are regarded as unrealized and are eliminated from the parent's and minority's interests in proportion to their stockholdings in the selling affiliate.	The Parent's proportionate share of intercompany profits or losses is regarded as unrealized and is eliminated.
Accounting in consolidated statements for a subsidiary's identifiable assets and liabilities on the date the conditios for a parent-subsidiary relationship are met (excluding situations in which negative goodwill is present)	Assets and Liabilities of a subsidiary are included at their fair values on the date the conditions for a parent-subsidiary relationship are met, including the minority's share and including the proportionate share previously held by the parent in step-by-step acquisitions, which may result in recognizing holding gains or losses.	For each separate acwuisition of the subsidiary's stock by the parent, assets and liabilities of the subsidiary are included at the parent's proportionate interest in their fair values (the minority's proportionate share is not included).
Accounting for and reporting positive goodwill on the date the conditions for a parent-subsidiary relationship are met	Two interpretations of the economic unit concept are (a) goodwill, if any, is recognized in an amount equal to the difference between the estimated fair value of the subsidiary as a whole (usually inferred from the purchase price paid by the parent in the transaction resulting in the parent-subsidiary relationship) and the net fair value of the subsidiary's underlying identifiable assets and liabilities or (b) goodwill, if any, is recognized in an amount equal to the difference between the parent's cost to acquire its controlling interest and its proportionate share of the net fair values of the subsidiary's identifiable assets and liabilities acquired when control is attained.	Goodwill, if any, is recognized in an amount equal to the difference between the parent's investment and its proportionate interest in the net fair values of the subsidiary's identifiable assets nad liabilities, with each purchase of the subsidiary's stock accounted for as a separate acquisition "layer".

Accounting for and reporting negative goodwill on the date the conditions for a parent-subsidiary relationship are met	Negative goodwill is recognized as a single amount separate from individual assets and liabilities and is reported as a separate item (a "master valuation account") in the asset section of the consolidated balance sheet. Some proponents of the economic unit concept would recognize invome if evidence clearly shows a true bargain purchase.	Negative goodwill is recognized as a reduction of noncurrent assets (except long-term investments in marketable securities) and if that allocation reduces noncurrent assets to zero value, the remainder of negative goodwill is classified as a deferred credit.
Accounting for subsequent increases in a parent's proportiontate interest in a subsidiary	Accounted for as investments by or distributions to owners-issuances or reacquisitions by the reporting entity of some of its own shares (no gain or loss).	Accounted for as an additional purchase or a sale by the parent of a portion of its interest in the subsidiary, with recognition of gain or loss on sales.

(Source; FASB (1991), pp.34-35.)

5. Conclusion

In this paper, a preparation was undertaken before exploring the development of group accounting in the United Kingdom. In the first section previous literature on the topic is briefly surveyed. The concept of Path-dependency is introduced in the second section. Third section identifies the main basic problems associated with the preparation of consolidated financial statements, and this is followed by an attempt to seek an implication for the present day as the forth section.

The investigation into development of group accounting in the United Kingdom is supposed to reveal why British accountants traced a different path from American accountants and how different the path was. It will adduce an example of accounting which evolves not only as a technical matter but also as an organic phenomenon and is inevitably interdependent with its surrounding contexts. In addition to these, it will indicate that accounting displays regional variations as a result of organic evolution of institutions.

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