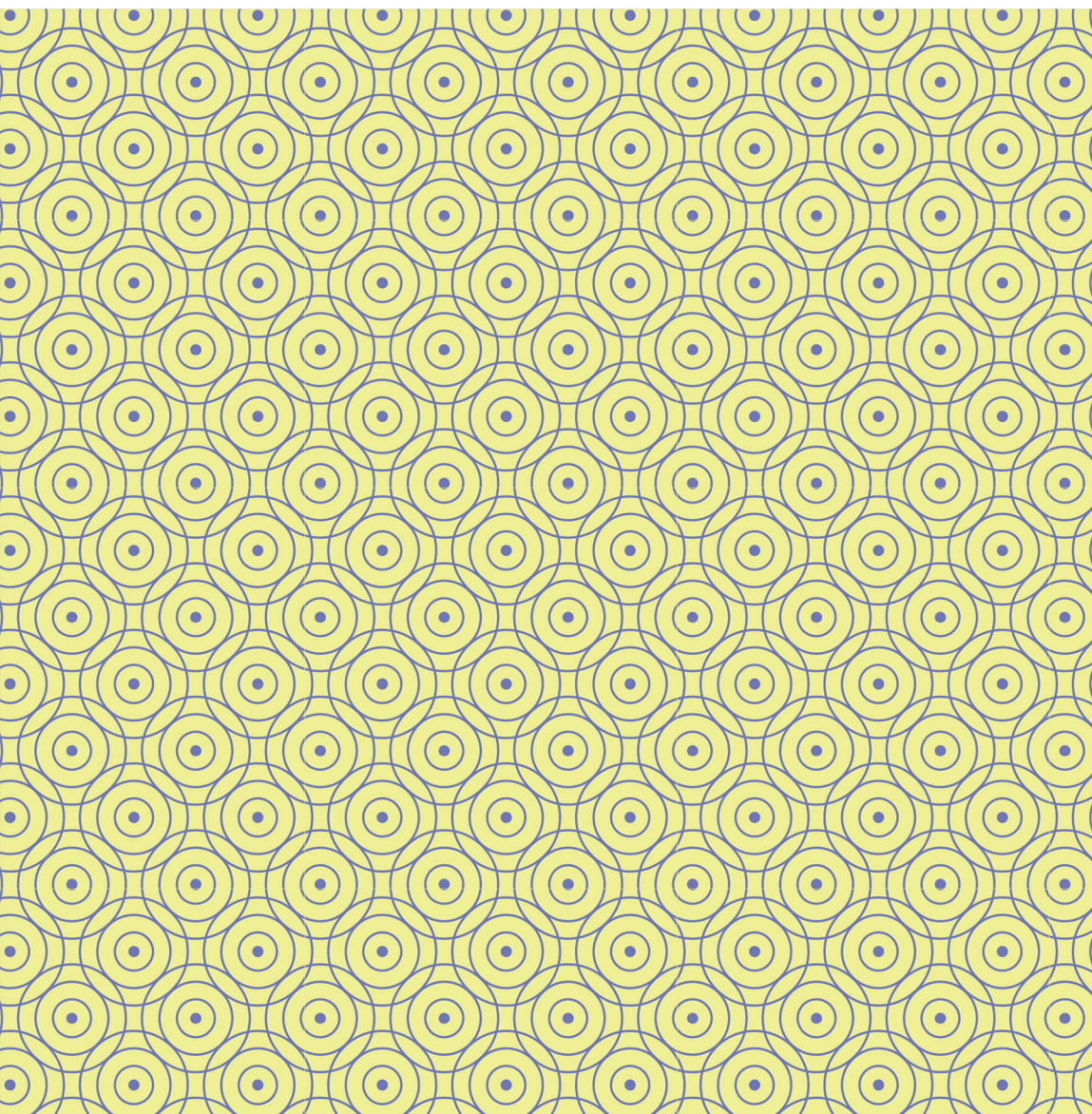


**Historical
Developments in
the Accountancy
Profession, Financial
Reporting, and
Accounting Theory**

**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

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ACCOUNTING THOUGHT VOLUME 25

**HISTORICAL
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REPORTING, AND
ACCOUNTING THEORY**

BY

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India – Malaysia – China

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ABOUT THE AUTHORS

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

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FOREWORD

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

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

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

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

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

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

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April 2021

NOTES

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

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ACKNOWLEDGMENTS

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

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