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JOHN RICHARD EDWARDS AND TREVOR BOYNS

Published Accounts, Stewardship, and Decision Making: A Case Study 1863–1940

The conventional wisdom is that (i) the published accounts of British registered companies fulfilled a narrow stewardship role from inception (1844) through to 1947 when the Companies Act added significantly to statutory disclosure requirements, and (ii) the 'decision useful' role of published financial reports is the creation of 'golden age' accounting thinkers in the 1950s and 1960s. Our paper challenges this version of the history of stewardship and decision usefulness based on an in-depth study of the archives of the Staveley Coal and Iron Co. Ltd for the period 1863–1940. In so doing, the idea that stewardship and decision usefulness served as competing objectives of financial reporting is rejected as a false dichotomy. Our findings are consistent with Bryer's (1993) proposition that modern financial reporting developed in the late-nineteenth century to provide useful information for purposes of investor decision making. Further, we find that financial reporting practices were based on a conceptual framework within which prudence (or conservatism) served as a fundamental accounting principle.

Key words: Accounting history; Decision-useful; Profit measurement; Prudence; Stewardship.

There is a significant literature that postulates that the use of reported profit as a basis for share investment decisions is a relatively recent development. There are several reasons for this hypothesis. Following the creation of the registered company, in 1844, statutory reporting requirements were confined to the balance sheet. This produced the conclusion that published accounts were principally stewardship documents designed to signal a company's financial stability to creditors and investors (Edey and Panitpakdi, 1956). The question of whether disclosure requirements should be increased was debated before a series of committees appointed to consider the amendment of company law, commencing in 1867. Calls for significant additions to statutory disclosure requirements were

John Richard Edwards (edwardsjr@cardiff.ac.uk) and Trevor Boyns are with the Cardiff Business School.

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successfully resisted by management, through to the 1940s, on the grounds that such data could be exploited by its workforce for wage bargaining purposes and by competitors when devising hostile business strategies.[1]

If investors required more information, so the argument went, it could be obtained through informal or formal channels. Informally, a shareholder could approach management directly with a request for additional knowledge.[2] As Maltby (1998, p. 27) put it: 'the 'capitalist elite' could use insider knowledge to help them in making investment decisions, and their closeness to company management obviated the need to rely on financial accounts'. Shareholders who were less well placed could attend and ask questions at the annual general meeting (AGM). It has also been argued that reported profit was not an important ingredient in fixing share prices given the absence of generally accepted accounting principles governing its calculation and the lack of information concerning how the figure was computed. Indeed, in Rutterford's (2004, pp. 116–17) estimation, reported figures for earnings were of little use for performance assessment purposes in Britain until reforms put in place by the Companies Act 1947 took effect on 1 July 1948.[3] Instead, share investment decisions were principally influenced by dividends and knowledge of economic conditions likely to affect a company's future performance (Jefferys, 1938, pp. 415–16, 425; Rutterford, 2004).

But ideas concerning the appropriate content of published financial reports were beginning to change with F.R.M. de Paula[4] (1939, p. 325) articulating the emergence of a new climate of opinion close to the end-date of this paper:

> After the *Kylsant* case[5] there had been a widespread feeling that shareholders in holding companies should be able to see what the normal earnings for the year were, and if there were any abnormal items they should be stated separately.

[1] See lecture by Wilfrid Greene delivered before the London members of the Institute of Chartered Accountants in England and Wales (Greene, 1926, p. 681). Greene chaired the Company Law Amendment Committee, which reported earlier that year. When the next company law amendment committee reported in 1945, unreserved support for financial confidentiality was replaced by the priority of 'fullest practicable disclosure' (Cohen Committee, 1945, para. 5).

[2] A modern equivalent might be meetings between fund managers and company finance directors or investor relations managers. While both parties are 'scrupulous in avoiding the disclosure of "price sensitive" information', such meetings serve as 'a vital source of a competitive "knowledge advantage" for institutional investors' (Roberts *et al.*, 2006, p. 279; see also Holland and Doran, 1998; Cascino *et al.*, 2013, pp. 9–10).

[3] This was the date fixed by the Order of the Board of Trade under the Companies Act 1947, s.123 (2) (see Companies Act 1948, s.462(2)).

[4] de Paula was a practising accountant who worked part-time at the London School of Economics, becoming Professor of Accountancy and Business Methods in 1926. Three years later, he joined the Dunlop Rubber Company and, as Controller of Finance, is credited with making their published accounts models of transparency. de Paula chaired the ICAEW's Taxation and Research Committee from 1943 and 1945, during which time *Recommendations on Accounting Principles* 6 to 10 were issued (Kitchen and Parker, 1994, pp. 241–2).

[5] *Rex v. Lord Kylsant and another* 1931—otherwise known as the Royal Mail Case—alerted the business world and the general public to the use of secret reserves to seriously distort the true trend of reported profits (Edwards, 2019a, ch. 9.4).

In evidence presented to the Cohen Committee (1945, p. 567), de Paula explained why things needed to change: 'the true value of a business undertaking is its capacity to earn profits' and, therefore, it is of 'vital importance that the annual profit and loss … account should give a reasonably clear view of the financial results of the trading or other transactions of each accounting period'.

Signs of growing concern with the need for an improved signal of earnings capacity, at the institutional level, is provided by the decision of Britain's then largest professional accounting body—the Institute of Chartered Accountants in England and Wales (ICAEW)—to issue *Recommendation on Accounting Principles No. 8*, titled 'Form of balance sheet and profit and loss account', on 15 July 1944.[6] There, the ICAEW recommended the following disclosures (reproduced in Zeff, 2009, p. 58):

- Any change in the basis of valuing assets, e.g. the method of valuing stock or depreciating fixed assets;
- Items of income or expenditure of an extraneous, non-recurrent or exceptional nature;
- Amounts transferred to or withdrawn from reserves.

These recommendations were included in evidence subsequently presented by the ICAEW to the Cohen Committee (1945, pp. 389–90) appointed to consider ways of improving existing company law requirements. The recommendations were accepted by that Committee and received legislative recognition in the Companies Act 1947 (1^{st} schedule, part 1, paras 8(1(e)) and 9(6)).

Soon afterwards the objectives of published corporate financial statements (CFS) came under the spotlight in a literature that began to make explicit use of the term 'decision-usefulness' (Zeff, 2013, p. 263). The 1950s and 1960s have been described by Nelson (1973, p. 4) as the 'golden age' of *a priori* research in accounting when accounting thinkers such as Raymond A. Chambers, Maurice Moonitz, and Robert R. Sterling explored ways in which measurement bases might be radically revised to provide more meaningful inputs for decision making. In so doing, they employed deductive reasoning (Gaffikin, 1988) in the endeavour to create a 'postulational or axiomatic basis' for a new way of financial reporting (Mattessich, 1996, p. 10). Slowly the British accounting profession began to take notice with *The Corporate Report* (Accounting Standards Steering Committee, 1975) recommending a number of ways in which CFS might better inform user groups.

As countries in different parts of the world turned their attention to the development of conceptual frameworks designed to better inform the standard-setting process, the quest to reach agreement on the appropriate objectives of CFS moved centre-stage (Zeff, 2013). The ensuing discussion saw the term stewardship used to signify a level of accountability beyond its earlier custodial role. The Accounting Standards Board's *Statement of Principles*, for example, explained its revised purpose as follows: 'In its stewardship role, management is accountable

[6] The purpose of the series of 29 *Recommendations* issued between 1942 and 1969 was to identify and encourage businesses to adopt best financial reporting practices (ICAEW, 1942, p. 354).

[to investors] for the safekeeping of the entity's resources *and for their proper, efficient and profitable use*' (Accounting Standards Board, 1999, para. 1.3(a), emphasis added). The *Statement* also emphasized the need for CFS to convey decision-useful information for the purpose of assessing investment risk. Thus, investors 'need information on the entity's financial performance and financial position that helps them to assess its cash-generation abilities and its financial adaptability' (Accounting Standards Board, 1999, para. 1.3(a)).

The accounting history literature contains a single research study which explicitly challenges the well-established idea that it was not until post-World War 2 that the perceived purpose and, ultimately, practice of financial reporting moved beyond a narrow, stewardship role in the endeavour to supply decision-useful data. Bryer (1993, p. 649, see also p. 686) believes that modern financial reporting developed in the late-nineteenth century to provide useful information for investors:

> It is argued that the rise of M[odern] F[inancial] R[eporting] can be explained as a response to the demand from investors collectively for help in managing the new social relationships which emerged between them and management, and between individual investors.

Bryer calls for studies to test his hypothesis, and the present paper responds to that invitation. More specifically, the aim is to study how the accounting policies of the Staveley Coal and Iron Co. Ltd shaped the level of reported profit and, indirectly, dividend declarations and the market value of that concern.[7] In so doing, the focus will not be on what accountants and accounting historians today believe to have been the objectives of CFS, but what Staveley's directors, auditors and shareholders had to say on such issues.

The research methodology used here is designed to construct a narrative of the relevant history of the Staveley Coal and Iron Co. Ltd based on an in-depth study of its extensive archive for the period 1863 through to 1940, as further informed by relevant existing historical analysis of that company. Archival materials of particular importance for the purpose of this study include the annual CFS, the detailed records of directors' meetings and proceedings at AGMs, a series of confidential reports prepared annually by the auditors for consideration by the board, and special reports written on a range of issues by the company's executives and consultants. The significance of our findings is evaluated by comparison with existing ideas concerning the role of CFS in Britain during the period up to World War 2.

First, however, we provide further rationale for our study by contending that the history of the role of CFS has been over-simplified and misrepresented by

[7] The paper does not address a fundamental and much wider feature of Bryer's work, namely the nature of capitalism and the calculation of rates of return as key signatures of capitalism. Within that broader context, Bryer's Marxist-inspired analysis of accounting's past has been the subject of academic comment and criticism in a number of studies, including Chiapello (2007) and Toms (2010, 2020).

treating stewardship and decision usefulness as competing and, sometimes, mutually exclusive objectives.

STEWARDSHIP VS DECISION USEFULNESS—A FALSE DICHOTOMY

The choice between historical cost and current value as the principal measurement basis for CFS is typically seen to depend on whether those accounts are to be used for purposes of stewardship or decision making (Cascino *et al*., 2013). Historical cost accounting narrates a company's financial history based principally on original transaction values and, for that reason, is seen to fulfil an essentially stewardship role. Classic examples, from history, are the charge and discharge account prepared by the steward for the lord of the manor, during the late middle ages, and the double account system used by directors of railway (and other public utility and transport) companies, beginning in the late 1830s, to report to corporate investors (Edwards, 2019a, chs 1 and 6). Within the latter reporting framework, the capital account provided a continuing historical record of how money raised from suppliers of both share and loan finance had been spent. Expressing transactions in terms of some version of current value, in contrast, is believed to provide more relevant data for investment decision making.

A report prepared for the Research Committee of the Institute of Chartered Accountants of Scotland and the European Financial Reporting Advisory Group, in 2013, helpfully distinguishes between the 'decision usefulness' and 'stewardship' roles of published financial statements in the following terms:

> the former involves using information to make investment/valuation decisions and typically requires future-orientated information (that is, the *ex ante* role of information), while the latter entails using information to monitor management's use of capital after it has been invested in the company (the *ex post* role) (Cascino *et al*., 2013, p. 19).

While it is important to distinguish between the two quite different roles that published accounts might serve, it does not necessarily follow that they require distinctive valuation models to make them operational. Moreover, CFS never did and still do not conform to either the historical cost or current value models. What can be observed through time, however, is movement from the former towards the latter. The early transition from charge and discharge accounting to double entry bookkeeping signals recognition of the need to provide the principal with an ongoing record of how money raised had been spent. However, the balance sheet was also esteemed because it supplied a rough and ready indication of the continuing value of business assets. For example, the teacher and writer, Alexander Malcolm (1731, p. 3), described the balance sheet as an 'Account of all one's Effects and Debts; the Difference of which [i.e. capital] is the final *State* of the Whole; shewing what one's free *Estate* is worth'. Nearly three centuries later Lambert (2010, p. 288) observes that, even within the historical cost model in vogue then and, to a substantial extent, also today: ‘Virtually every item on a balance sheet involves some degree of subjective unverifiable projections by managers’. The development of depreciation accounting, which was in an embryonic state at the time Malcolm was writing, while probably not expected to supply an accurate ‘valuation’ of the enterprise, was certainly intended to alert investors to the fact that the earnings potential of fixed assets was likely to have declined. For the same reason, it became common practice to revise the carrying value of inventories when net realizable value was below historical cost and to adjust receivables for amounts deemed irrecoverable.

Turning to the income statement, it is possible to observe, through time, the inclusion of fuller details of revenues and expenditures, the separate disclosure of non-recurring items, the identification of changes in measurement bases and the need to highlight items reported in one period although relating to another. The first half of the twentieth century, in Britain, also saw support for secret reserves, on the grounds that they helped underpin the financial strength of an enterprise, superseded by opposition to their use based on the conclusion that they distorted the true trend of corporate profitability. Each of these changes, and many others, can be interpreted as having, as their purpose, to improve the decision usefulness of accounts prepared in accordance with the historical cost model.

The move towards fair value, over the last thirty years or so, may therefore be seen as part of a trend designed to improve the predictive value of CFS, which continue to fulfil a vital stewardship role. But this is not always the way things have been portrayed by standard setters who,

> in articulating the role of accounting and the objective of accounting standards, explicitly reject the notion that the primary role of accounting is to aid in stewardship, or more broadly to aid in contracting. More typically, the role of accounting is defined as to ‘aid decision making’ (Lambert, 2010, p. 288).

Lambert (2010, p. 294) concludes: ‘While there are important differences in the two views on the role of accounting, in many ways the two “competing” roles are closer than often thought’. Zimmerman (2015, p. 504) follows the same line of reasoning when observing: ‘While the valuation and stewardship roles are distinct, the same information can be useful for both. For example, valuations that guide managers’ decisions can also be used to evaluate past decisions by managers’. The important thing, as recognized in the *Statement of Principles* (see previous section), is that stewardship and decision useful are overlapping objectives[8]—that is the case today and, perhaps, has always been so, though the extent to which one or the other is seen to have priority has clearly shifted through time. The next subsection considers the important and changing role of the concept of prudence (sometimes designated conservatism) in that process.

[8] Zeff (2013, p. 313) points out that the meaning attached by writers to the term stewardship ‘has varied from being purely custodial to being an indicator of management effectiveness in generating a return to shareholders’. He continues: ‘As the meaning approaches the latter limit, it is tempting to conclude that stewardship should be folded into the overall decision-usefulness objective’.

The Role of Prudence

Writing in 1960, Yamey (1960, p. 3; see also Edwards 2019a, ch. 10) observed that the 'accounting conventions' that became the foundation for CFS were 'essentially the product of the second half of the nineteenth century'. In other words, the accounting practices that were devised to report the results of a burgeoning number of limited liability companies, post-1855, were underpinned by a coherent ideology that Bryer (1993, p. 651) claims to be 'a clear and generally accepted conceptual framework'. Over the years that conceptual framework has been reconstructed as ideas have altered concerning the desirable characteristics of CFS. As part of that process, the appropriate role of prudence or conservatism—a concept of particular importance in the context of the present paper's focus on the relationship between the stewardship and decision useful roles of CFS—has changed dramatically.

The meaning of the principle of prudence has 'never been fixed and immutable' (Alexander *et al.*, 2018, p. 2), with Maltby (2000) noting that, during the nineteenth century, it developed from a general business principle into one having a specific accounting role. From this latter perspective, she suggested that, by the end of the nineteenth century, the terms prudence and conservatism were synonymous, signifying 'the deliberate understatement of profits and/or assets in order to protect managers and large investors against small shareholders and speculators demanding dividend payments' (Maltby, 2000, p. 66). This accords with the widely quoted observation of Buckley, J. in *Newton* v. *Birmingham Small Arms Co. Ltd* 1906: 'Assets are often, by reason of prudence, estimated, and stated to be estimated, at less than their probable real value' (2 Ch. 378 at 387).

In the Anglo-Saxon world, it was during the second half of the twentieth century that accounting thinkers (e.g., Sterling, 1967) increasingly drew a distinction between prudence and conservatism, with the latter deemed to signify the deliberate understatement of profits and asset values whereas prudence implied the exercise only of a reasonable degree of caution when valuing assets and liabilities. Zeff (2013, p. 313) comments on the transition as follows: 'Conservatism, when it has been included at all as a criterion in the [regulatory] frameworks—increasingly labelled as prudence because of the unsavoury reputation of "conservatism"—has been uniformly defined as a cautionary reaction to uncertainty' (Zeff, 2013, p. 313). The relevant regulatory changes in Britain, and the thinking behind them, are summarized in the remainder of this sub-section.

Britain's first tentative move towards a conceptual framework for CFS was the subject of *Statement of Standard Accounting Practice No. 2* titled 'Disclosure of Accounting Policies' issued in 1971. This saw prudence recognized as one of four fundamental accounting concepts, and the one which 'prevails' over the accruals concept in cases of conflict (ICAEW, 1971, para. 14). Since then, things have changed a great deal, with the former hegemony of prudence under challenge because regulators increasingly believed that it undermined the need for neutrality at a time when decision usefulness gained precedence over stewardship as the perceived prime objective of published financial reports. Twenty-seven years after the publication of SSAP 2, the British *Statement of Principles for Financial*

Reporting saw prudence, which had 'for many decades been at the heart of UK financial reporting', no longer rank as a fundamental concept (Wilson *et al*., 2001, p. 106). Instead, it was given a more modest role in helping to achieve the qualitative characteristic of 'reliability' (Accounting Standards Board, 1999, ch. 3).

This transition was mirrored at the international level with the *Conceptual Framework for Financial Reporting*,[9] issued by the International Accounting Standards Board in 2010, making no explicit reference to prudence. This major departure from previous ideas concerning the appropriate conceptual basis for CFS was the subject of critical comment and, in due course, the Board relented, a little, when the revised edition of its conceptual framework was issued in 2018 (Meall, 2015; Wagenhofer, 2015; Pelger, 2020). The 2018 version identifies reliability and faithful representation as the two fundamental qualitative characteristics of CFS; a priority that prudence arguably fulfilled throughout the timeframe of the present paper. Now, however, prudence features only as a component of faithful representation, the purpose of which is to ensure that CFS are, 'to the maximum extent possible, complete, neutral and free from error' (International Accounting Standards Board, 2018, ch. 6). In that context, prudence now plays a role in the pursuit of neutrality through 'the exercise of caution when making judgements under conditions of uncertainty'. But the *Conceptual Framework* insists that such caution does not permit the understatement of assets or income or the overstatement of liabilities or expenses.

Our intention in this paper is to interpret past events within their historical context. Although any muscular version of prudence might, today, be considered inimical to accounts designed to fulfil a decision useful role, that was not so at Staveley between 1864 and 1940, nor probably at many other prudently managed companies during that period. With a focus on the priorities of the long-term investor, and a greater concern with business uncertainty than has been displayed by regulators in recent decades, the employment of highly cautious measurement practices was thought to have much to commend it.[10] A leader writer for *The Accountant* in 1938, near the end-date of this paper, explained the role of prudence as follows:

> The whole of our thinking about joint-stock enterprise is coloured by the conception of passengers who join a ship for a whole voyage, and we pay little or no attention to those wayfarers who treat a company as a street car convenient for a journey from one block to another. English [financial reporting practice] is admittedly unsuitable for the short term speculator … [quoted in Yamey, 1960, p. 17).

[9] This replaced the *Framework for the Preparation and Presentation of Financial Statements* issued by the International Accounting Standards Board in 1989.

[10] At the 1893 AGM of G. Kynoch & Co. Ltd, for example, the company chairman, Arthur Chamberlain, noted that the balance sheet 'had been prepared on conservative lines, and with a very prudent regard to the possibilities of the future' (G. Kynoch & Co., 1893). Newspaper reports cited in this paper were accessed at *British Library Newspapers*. Gale Cengage Learning: https://www.gale.com/intl/primary-sources/british-library-newspapers.

Indeed, such ideas persisted through to the end of the twentieth century, at least in some quarters. According to the finance director of a listed company surveyed by Nobes and Parker (1991, pp. 359–60):

> Provided [income smoothing practices] … are used sensibly with a view to trending long term profits, all is well. There is nothing magical about a 12 month period. What is important is that statutory accounts reflect long term profits, not short term fluctuations. Indeed to present [a] short term result as *the* results does not give a true and fair view in its wider sense.

As noted above, during the timeframe of the present paper the terms prudence and conservatism were synonymous—often signifying the deliberate understatement of profit and asset values—and we therefore use the terms interchangeably. We will show that profit smoothing featured prominently in the history of the Staveley Coal and Iron Co. Ltd, but that this did not prevent its published CFS, in the directors' estimation, from fulfilling a decision-useful role.

STRAWS IN THE WIND

Before turning to a study of the Staveley archive, it is relevant to cite, from the early literature, fragments of evidence to suggest that the conventional view which celebrates the supremacy of the narrow stewardship role of CFS through to the middle of the twentieth century is deficient. These fragments instead suggest that the content of companies' CFS could potentially be used for investor decision-making purposes and share price determination well before accounts were published that complied with the radical additional disclosure requirements introduced by the Companies Act 1947.

In the middle of the nineteenth century, the Monteagle Committee (1849, p. viii), appointed to examine the financial reporting and auditing practices of railway companies, reported as follows: 'it is impossible to overrate the importance of the strictest adherence to an invariable separation between the Capital and the Income of Railway Companies'. The Committee also explained why a correct allocation was important: 'any deviation from [a proper separation] … will falsify the Account, and deprive the Public of the means of *measuring the value of the undertaking*' (Monteagle Committee, 1849, p. viii, emphasis added). Drawing on evidence from the leading accountant of the day, William Quilter, the Committee further observed that, in such circumstances, a corporate shareholder remained 'in ignorance of the true state of the Company's affairs, and is led to give a higher price than the thing is worth, under the belief that the Dividends declared come *bonâ fide* out of Profits' (Monteagle Committee, 1849, pp. viii-ix).

Nearly 40 years later, Ernest Cooper, a partner in Cooper Brothers,[11] penned an article entitled 'What is profit of a company?' This informed readers that the

[11] A forerunner of today's PricewaterhouseCoopers, Cooper Brothers was the seventh largest firm in 1886 as measured by the number of quoted company audits (Anderson *et al.*, 1996, p. 368).

Bank of England omitted from its published balance sheet premises worth a million pounds and that the active creation of secret reserves was a not uncommon practice among companies generally. He then went on to make the following critical evaluation of such practices: 'it is not easy to see why … an outgoing shareholder whose paid agent in a sense the directors are, is not entitled to recover the loss occasioned by *having sold his shares below their real value*' (Cooper, 1888, p. 744, emphasis added). Clearly Cooper was convinced that a company's reported financial position directly affected the price of a company's shares. Towards the end date of this paper, Henry Summers, chairman of north Wales steelmakers, John Summers and Sons Ltd, informed his son, Neville: 'We have used our subsidiaries to hide profits but the public think otherwise hence our shares are much lower than they ought to be' (letter dated 21 September 1934, quoted in Edwards, 1981, pp. 38–9).[12]

The remainder of this paper draws on the surviving records of the Staveley Coal and Iron Co. Ltd to shed further light on the perceived role of CFS in investor decision making.

STAVELEY COAL AND IRON CO. LTD

The Staveley Works, as it was then known, came under the control of the Barrow family in 1815 when George Hodgkinson Barrow took over the ground leases from the Duke of Devonshire. A quarter of a century later, the business was transferred to George's younger brother Richard who successfully developed the enterprise over the next 23 years (Chapman, 1981, p. 24, pp. 41–50). In 1863, Richard Barrow was in his mid-seventies and, with no child to succeed him, arranged to sell his business to the Staveley Coal and Iron Co. Ltd (SCI Ltd) newly incorporated for that purpose. SCI Ltd was floated with an authorized capital of 6,000 shares each with a nominal value of £100.[13] Barrow received 1,250 vendors' shares[14] (treated as £80 paid) as part payment for the Staveley Works. The prominent public accountant and company promoter, David Chadwick (Cottrell, 2004), arranged the finance required to ensure success of the flotation. According to Chapman (1981, pp. 70–1): 'During the investment boom of 1863–1867 Chadwick provided the technical expertise for a consortium of wealthy Manchester investors who were seeking to diversify their incomes by investing capital in growth industries'. The other main investors who, together with Richard Barrow, constituted the initial board of directors held between them 1,210 shares each with a nominal and paid-up value of £100 and £60 respectively. The

[12] In contrast, at the AGM of the Patent Nut and Bolt Co. Ltd held in early 1880, Joseph D. Weston, company chairman, implied that the directors believed that 'the reserve fund more than showed itself in the value of their shares' (Patent Nut and Bolt Co., 1880).

[13] The directors' minute books record the ownership of these shares as at 31 December 1863 (D3808/1/2/1, pp. 46–9).

[14] Fifty of these shares were registered in the name of Richard's nephew, John James Jerome Barrow.

remaining 3,540 shares (also issued as £60 paid up) were purchased by 115 ‘small investors’, many of whom also lived in the Manchester area (Chapman, 1981, p. 71).

The company’s shares were traded on the Sheffield Stock Exchange and the Manchester Stock Exchange from 1864 (Manchester Share Market, 1864; Sheffield Stock Exchange, 1864). They were also listed on the London Stock Exchange and the Liverpool Stock Exchange from 1908. We know that 935 shares (15.5% of shares in issue) had changed hands by 15 September 1864 when, as required by the Companies Act 1862, the annual return to the Registrar of Companies contained the revised list of shareholders (Staveley Coal and Iron Co. Ltd, Annual Return, 1864). Fifty-two investors had sold some or all of their shares by the latter date whilst 54 made acquisitions. The overall number of shareholders had risen by 10.6% to 136. It is therefore fair to conclude that there was an active market in the company’s shares from the outset. As time went by the shareholdings became far more widely dispersed, there being 962 shareholders in 1911.[15] This study reveals that some of these shareholders believed that reported profits and asset values should, and did, play a vital role in determining the price at which their investment could be bought and sold.

The next sub-section identifies members of the Barrow and Markham families who were central figures in financing and managing SCI Ltd for much of the study period.

The Barrows and the Markhams

Two of the Barrow family, Richard and his nephew, John James Jerome (JJJ) Barrow, served on the initial board of directors. The company’s articles of association identified Richard as chairman of the board and stipulated that he should retain that position until 1869 or prior death. He died in January 1865 when his financial interest in SCI Ltd passed to his brother, John (JJJ’s father), who was invited to take over as chairman; a position he retained until his own death on 22 July 1871.

Following the demise of Richard and John, some of the latter’s descendants continued as shareholders with, over the years, the following known representation at board level. In 1891, JJJ Barrow was joined on the board by his son John Burton Barrow who practised as a mining engineer. In the directors’ annual report for 1903, the death of JJJ Barrow is noted and, in 1914, that of John Burton Barrow. Between 1914 and 1918 there were no Barrows on the board but, in 1919, JJJ Barrow’s son, Leonard Norman, was appointed director; a position he retained until the announcement of his death in the 1932 directors’ report.

Following John Barrow’s death in 1871 Henry Pochin[16] became chairman, fulfilling the same role at the Sheepbridge Coal and Iron Co. Ltd and Bolckow, Vaughan & Co. Ltd (Chapman, 1981, pp. 71–2). For a quarter of a century

[15] Staveley Coal and Iron Co. Ltd, Annual Return (1911).

[16] Pochin trained as a chemist and then embarked on a successful business career, which included the promotion of several joint-stock companies in the iron, steel and engineering industries. In due course he became director, and sometimes chairman, of no less than 22 companies (Boyns, 2004).

following SCI Ltd's formation, however, the main driving force was the 'first generation' professional manager, Charles Markham (Chapman, 1981, p. 72). Markham's prior appointments include that of engineer at the Midland Railway Company Ltd and, with the Staveley Works a large supplier of its coal requirements, Richard Barrow met Markham and 'quickly "formed an intimacy"' (Chapman, 1981, p. 73). Following the creation of SCI Ltd, Markham was appointed managing director and chief engineer. He began to chair board meetings in 1883. In the same year that Markham died, 1888, his son Charles Paxton was appointed to the board—'a mere youth among an assembly of elderly Victorian capitalists' (Chapman, 1981, p. 85). Markham junior chaired the AGM,[17] commencing 1894, and was elected permanent chairman in 1903. He developed the company as a major coal supplier and took it into chemical production just before World War 1. He died while still 'in harness' in 1926.

The external auditors engaged to report to SCI Ltd's shareholders during the study period, and sometimes also to its directors, are next identified.

The External Auditors

SCI Ltd's auditors played an important role in shaping, explaining, and defending the company's financial reporting practices. The published accounts[18] were signed off by David Chadwick and the prominent London-based accountant John Edward Coleman 1864–1865; Chadwick, Adamson & Co. 1866; Chadwick & Co. 1867; Chadwicks, Adamson, Collier & Co. 1868–1876; and Chadwicks, Collier & Co. 1877–1883. David Chadwick then resigned following disagreement with the board and, indeed, with his partner Edwin Collier (Edwards, 2019b, pp. 296–8). The firms which subsequently signed the annual audit report were: Edwin Collier 1884–1889; Edwin Collier & Co. 1890–1896; Edwin Collier, Tongue & Co. 1897–1899; and Alfred Tongue & Co. through to 1940 although Tongue, himself, died in 1930. Chadwick initially took responsibility for conducting the audit but soon transferred the work to Collier. By 1896, it was Tongue who took on that mantle judging from his attendance at the AGM to help answer queries from shareholders on the content of the accounts.

The profit measurement and asset valuation procedures employed to construct the CFS published by SCI Ltd between 1864 and 1940 are next examined.

PROFIT MEASUREMENT AND ASSET VALUATION

A substantial body of empirical literature emanating from the pioneering studies of Ball and Brown (1968) and Beaver (1968) reveal that, among the variety of factors which affect share prices, the contents of CFS play an important role. The purpose of this section, therefore, is to study SCI Ltd's business archive to try to understand whether published CFS are likely to have provided shareholders with

[17] The early general meetings were held at Staveley, between 1870 and 1875 at Manchester, from 1876 alternating between Manchester and Sheffield, and from 1898 Sheffield.

[18] The catalogue entry, at the Derbyshire Record Office, for copies of the annual published accounts for the period 1864–1950 is D3808/1/6/1.

meaningful data on which to base their share investment decisions during a much earlier time period. And, equally important concerning the history of corporate financial reporting, whether shareholders believed that to be the case. The period covered encapsulates the heyday of secret reserves, the validity of which was given legal recognition by Buckley, J. in *Newton v. Birmingham Small Arms Co. Ltd* (1906, 2 Ch. 378). As one of the acknowledged 'cornerstones of modern Company finance' (Samuel, 1933, p. 269), the utility of secret reserves did not come under serious challenge until the chairman and auditor of the Royal Mail group were tried at the 'Old Bailey', in 1931 (*Rex v. Lord Kylsant and another*), for publishing a balance sheet that was alleged to be false and fraudulent (Edwards, 2019a, ch. 9.4).

Secret reserves were the subject of masterly analysis by de Paula (c.1918, p. 122), who outlined their main purposes as follows: (1) 'to provide a fund [i.e. credit balance] out of which heavy losses can be met, without disclosing the fact to the shareholders and general public'; and (2) 'to avoid disclosing information to trade rivals'. Secret reserves were classically created through an undisclosed transfer of value from the profit and loss account to a reserve account which did not appear on the face of the balance sheet because it was hidden within a vaguely labelled category such as 'sundry creditors' or 'creditors and credit balances'. However, de Paula (c.1918, p. 122) identified the following additional ways in which a secret reserve, might be created: writing down assets of all types 'below their true value'; making excessive provisions for outstanding liabilities; and charging capital items against revenue. We will see that the directors of SCI Ltd engaged in all these practices, at least to some extent, while consistently maintaining that every effort was made to keep shareholders fully informed of the company's performance and position.

The financial policies pursued by the directors of SCI Ltd, over a period of nearly 80 years, should be categorized, in the main, as prudent.[19] Operating in industrial sectors that were prone to strong cyclical swings, with prices and profits high during short periods of boom but much lower during relatively longer periods of depressed trade, this was arguably a wise policy. The aims were to limit business activity to a level that posed no risk of financial instability and to keep something aside, in one guise or another, 'for a rainy day'. The epitome of this cautious approach was Charles Markham, and his ideals and actions had a lasting influence. It was natural that Markham should be the dominant character on the board, during the first 25 years of the company's existence, given that he was an 'experienced professional with formidable scientific and practical experience and tireless energy' (Chapman, 1981, p. 75).

Markham's philosophy is made clear at an early meeting of the directors where, following discussion of the cash position, he concluded: 'we could not withdraw from our business more than £30,000 without discounting Bills which I trust will never be resorted to by the Staveley Company' (D3808/1/2/1, 27 August 1866, p. 398). In a similar vein, Markham informed the 1870 AGM that he disagreed with

[19] We recognize that any understatement of, say, asset values—perhaps because of the over depreciation of fixed assets—is inevitably balanced by the overstatement of profits, later on, given the reduced carrying values that remain to be written off.

a fellow director, Thomas Whitworth, who favoured borrowing money at 3% given that the company 'could make it pay 8 per cent or 9 per cent'. Markham instead insisted: 'we ought to owe nothing to anyone, & that we should endeavour to keep the concern as free from debt as possible'. The policy was to guard against financial vulnerability during the 'many ups & downs in the Coal Trade' (D3808, 1/4/1, 26 August 1870, p. 81).

Capital Expenditure Write-offs

Prudent financial management was also manifest in the company's profit measurement practices. Indeed, during much of the study-period SCI Ltd's directors followed a policy of writing off material amounts of capital expenditure against profits. The precise amounts involved were sometimes reported in the CFS or to shareholders attending the AGM. Rather more often the amounts remained undisclosed (Table 1). Concerning the employment of conservative measurement practices, Pochin possessed a similar mindset to that of Markham, addressing the 1866 AGM as follows:

> Had the Directors been disposed they might have made their reserves look somewhat larger … and if at this time twelve months they should have as favourable a report to present, the shareholders would not be disappointed to find that had the Directors been so disposed they might have shown a better one than they had done (D3808/1/4/1, pp. 28–29).

Prudent profit measurement practices naturally had implications for dividend policy with Pochin informing the 1874 AGM: 'It has always been my experience that an exceptional time in any trade is certainly followed by a reaction' (D3808/1/4/1, 25 August 1874, p. 154) and, therefore, the decision had been made:

> not to look at the property as one that will give us an immense dividend today, and a small one tomorrow, but to look upon the Shareholders as a permanent body & in periods of prosperity like the present to make provision for the times of depression that must surely come, and which are even upon us at this moment[20] (D3808/1/4/1, 25 August 1874, p. 154).

Pochin then proceeded to point out that the entire cost of three sinkings for coal (at Barlbrough, Newstead, and Staveley), amounting to upwards of £70,000, 'might fairly & legitimately be added to Capital, but considering the exceptional year we have passed through, we have thought it better to write the amount off, & strictly speaking the profit is of course reduced by that much'. It is 'only another way of forming a Reserve Fund that you will need some day or other' (D3808/1/4/1, 25 August 1874, p. 156). In addition, the balance of undistributed profit was built up gradually, from 1869 onwards, accumulating to £39,877 in 1876 when the shareholders were advised that: 'The Directors recommend the carrying forward of a large balance [of profit], as it will tend to increase the stability of the

[20] While the 'Great Depression' which lasted until 1896 had begun in 1873 (Rosenberg, 1943), SCI's continued high profits in 1874 are largely attributable to the fact that coal was commonly sold on annual contracts. Reported profit fell by nearly 50% the following year (Table 1).

TABLE 1

SELECTED WRITE-OFFS, PROFITS FOR THE YEAR AND APPROPRIATIONS 1864–1940

Year	Pre-profit write-offs: Capital expenditure	Pre-profit write-offs: Depreciation		Profit brought forward	Profit for year	Appropriations of profit: Reserves	Appropriations of profit: Capital expenditure	Appropriations of profit: Depreciation	Appropriations of profit: Various	Appropriations of profit: Dividend	Profit carried forward
	Undisclosed	Disclosed	Undisclosed								
1864				0	31,562					30,000	1,562
1865		13,000		1,562	68,921					69,720	763
1866		9,650		763	71,881					71,683	961
1867		8,133		961	64,759					65,167	553
1868		10,000		553	65,041					65,167	427
1869		7,428		427	76,622					65,167	11,882
1870			7,951	11,882	64,903					65,167	11,618
1871	1,845		8,601	11,618	63,060					65,167	9,511
1872	1,833		9,184	9,511	93,398					78,200	24,709
1873	36,810		9,805	24,709	256,381	100,000				156,400	24,690
1874	73,928		13,000	24,690	262,921	60,000				195,500	32,111
1875	30,236		13,780	32,111	133,761					130,333	35,539
1876	20,172		14,978	35,539	82,538					78,200	39,877
1877			16,308	39,877	69,020					65,167	43,730
1878			10,000	43,730	39,892					52,133	31,489
1879			10,000	31,489	29,292					32,583	28,198
1880			10,000	28,198	49,635					52,133	25,700
1881			10,000	25,700	55,145					52,133	28,712
1882			10,000	28,712	49,492					52,133	26,071
1883			10,000	26,071	50,426					52,133	24,364
1884			10,000	24,364	39,940					39,100	25,204
1885	7,000		10,000	25,204	34,077		1,494			32,583	25,204
1886	25,998		10,000	25,204	40,003		16,000			39,100	10,107
1887	2,610		10,000	10,107	33,148					32,583	10,672
1888	9,666		11,000	10,672	39,278					39,100	10,850
1889	12,596		12,500	10,850	59,032					58,650	11,232
1890	33,477		15,000	11,232	120,012					117,300	13,944

(Continues)

Table 1

CONTINUED

Year	Pre-profit write-offs: Capital expenditure	Pre-profit write-offs: Depreciation		Profit brought forward	Profit for year	Appropriations of profit: Reserves	Capital expenditure	Depreciation	Various	Dividend	Profit carried forward
	Undisclosed	Disclosed	Undisclosed								
1891	10,395		15,000	13,944	149,773					143,367	20,350
1892	6,131		25,000	20,350	121,466					117,300	24,516
1893	21,643		25,000	24,516	66,765					65,167	26,114
1894	11,104		10,000	26,114	39,640					39,100	26,654
1895	10,341		20,000	26,654	56,884					55,392	28,146
1896	4,864		20,000	28,146	48,806		18,000			48,875	10,077
1897	58,565		12,000	10,077	55,548					55,392	10,233
1898	14,261		17,000	10,233	57,422					55,392	12,263
1899	42,054		10,000	12,263	139,630				20,000	117,300	14,593
1900	33,868		20,000	14,593	295,083				25,000	260,667	24,009
1901			20,000	24,009	320,918		102,714		13,100	208,533	20,580
1902			20,000	20,580	127,249		44,125			78,200	25,504
1903			20,000	25,504	132,580		50,000			78,200	29,884
1904			20,000	29,884	93,974		20,000			78,200	25,658
1905			20,000	25,658	109,752		20,000			91,233	24,177
1906			20,000	24,177	121,410					117,300	28,287
1907			20,000	28,287	167,652					162,917	33,022
1908			20,000	33,022	245,622		50,000			188,780	39,864
1909			20,000	39,864	149,318		40,000			107,525	41,657
1910			20,000	41,657	121,435					107,525	55,567
1911			20,000	55,567	127,126					107,525	75,168
1912			20,000	75,168	109,240					107,525	76,883
1913			50,000	76,883	341,995	50,000	20,000			268,813	80,065
1914			50,000	80,065	270,854	75,000			94,197	134,406	47,316
1915			50,000	47,316	252,835				153,416	134,406	12,329
1916			50,000	12,329	329,422	50,000				286,732	5,019
1917			50,000	5,019	317,622	100,000				215,049	7,592

(Continues)

TABLE 1

CONTINUED

Year	Pre-profit write-offs: Capital expenditure	Pre-profit write-offs: Depreciation		Profit brought forward	Profit for year	Appropriations of profit: Reserves	Appropriations of profit: Capital expenditure	Appropriations of profit: Depreciation	Appropriations of profit: Various	Appropriations of profit: Dividend	Profit carried forward
	Undisclosed	Disclosed	Undisclosed								
1918			50,000	7,592	279,107	100,000				179,208	7,491
1919			95,545	7,491	279,168					219,828	66,831
1920		97,140		66,831	290,466	50,000				260,872	46,425
1921		67,488		46,425	232,740					231,888	47,277
1922		82,827		47,277	176,124					180,641	42,760
1923		91,000		42,760	304,912	100,000				243,480	4,192
1924		101,545		4,192	365,537	100,000				256,042	13,687
1925		100,000		13,687	279,135					213,049	79,773
1926		75,000		79,773	78,588	–80,000				162,798	75,563
1927		146,777		75,563	244,977					246,570	73,970
1928		100,000		73,970	204,722					164,380	114,312
1929				114,312	306,117	100,000	40,000			169,267	111,162
1930		135,772		111,162	266,094	75,000				203,121	99,135
1931		139,492		99,135	286,129	75,000				203,121	107,143
1932		146,345		107,143	219,279	50,000				169,267	107,155
1933		157,484		107,155	230,668	50,000		10,000		169,267	108,556
1934		187,747		108,556	274,773	50,000		10,000		220,047	103,282
1935		186,242		103,282	326,289	50,000		10,000		270,828	98,743
1936		197,791		98,743	390,285	50,000		10,000		304,682	124,346
1937		212,042		124,346	606,937	100,000		20,000		423,169	188,114
1938		214,812		188,114	498,568	100,000		20,000		372,388	194,294
1939		234,048		194,294	461,290	100,000		20,000		338,535	197,049
1940		245,055		197,049	417,517	100,000		10,000	91,327	270,828	142,411

Source: Derbyshire Record Office, D3808.
Note: 'Various' consists of: transfers to debenture redemption reserve 1899–1901 which were used to reduce the balance of fixed assets in 1907; transfer to suspense account for bad debts 1914; amount required to pay up new shares 1915; and retrospective taxation 1940.

Company'.[21] The directors' report for the following year refers to the general depression and competition in the industry and, more specifically, the fact that contracts entered into would result in 'materially' reduced profits, which persuaded the directors to carry forward £43,730 (Table 1) so as 'to provide a fair dividend for next year, in poor trading conditions'.[22] In addition to balances carried forward on profit and loss account, the company made transfers to a reserve fund in the boom years of 1873 and 1874 amounting, in total, to £160,000, which were fully disclosed to the shareholders (Table 1).

It also appears that, despite the upward revaluation of fixed assets to the tune of £391,000 in 1873,[23] the company was, by the 1880s, again in possession of a 'secret' reserve in the form of undervalued assets. The company's auditor, Edwin Collier, informed the 1881 AGM that the 'only difficulty he had had with the Staveley Board was that they were guilty, if guilty at all, of writing off Revenue what other Companies would call Capital' (D3808/1/4/1, 15 September 1881, p. 71). The prudent character of the company's accounting policies was again communicated to the shareholders, in 1885, though the understatement of profit and financial position remained a matter of speculation. Collier commented: 'I do not find anything wrong with them [the accounts], unless it be that the Directors keep them down a trifle too much, which is the side they err upon—and a good side to err upon too' (D3808/1/4/2, 11 September 1885, p. 118). In 1901, when SCI Ltd made the largest write-off of capital expenditure in their entire history, the auditors deemed it appropriate to draw shareholders' attention, in their audit report, to the fact that £102,714, 'properly chargeable against capital', had instead been written off against profits for the year (Table 1).

Treatment of Depreciation[24]

The policy of accounting for capital expenditure in a prudent manner also gave rise to inflated annual charges for depreciation. Whitworth informed the 1866 AGM that the board 'had been very liberal in their allowance for the depreciation fund, and the Insurance fund, and had rather tried to make the Balance Sheet look unfavourable than the contrary' (D3808/1/4/1, 31 August 1866, p. 29). The amounts charged for depreciation were disclosed from 1865 to 1869,[25] but not

[21] A similar view was expressed by Artur Keen, one of the two managing directors of the Patent Nut and Bolt Co. Ltd who, at the 1881 AGM, noted that the rationale for the company's reserve fund was 'to provide for a rainy day' (Patent Nut and Bolt Co., 1881).

[22] In a number of the years that followed, the balance of undistributed profits was drawn upon to enable the declarations of dividends in excess of profits for the year.

[23] Recognition of this increase in the carrying value of fixed assets was balanced by a one for one bonus issue, which doubled the issued share capital to £782,000.

[24] There is a significant literature on depreciation practices followed during the timeframe of this paper (Edwards, 2019a, ch. 14; Boyns, 2021). It includes a study by Morris (1986, p. 71) which reveals 'an immediate retardation in the rate of adoption of depreciation accounting among a sample of British mining companies' following the decision in *Lee v Neuchatel Asphalte Company* delivered on 9 February 1889. This did not happen at SCI Ltd where the depreciation charge rose both in the year the case was decided and the following year (Table 1). As we shall see, the main influence on the amount of the charge, for much of the study period, was the level of profit.

again until 1920. Consequently, the shareholders were unable to make any assessment of the adequacy of the amounts charged for the 50-year period commencing 1870 (Table 1). Lack of transparency was the subject of criticism at the 1912 AGM when a member of the Barrow family, Charles Deans Barrow,[26] complained: 'in other [companies'] balance sheets depreciation is put on and what has been written off every year' (D3808/1/4/4, 24 September 1912, p. 28). Charles Paxton Markham's response was:

> It is a difficult question to put depreciation on the Balance Sheet. It is not generally done. I don't think it is advisable, especially in the Staveley Company's case that it should be done. I can assure you it is ample and that the Auditors have always passed it as satisfactory (D3808/1/4/4, 24 September 1912, p. 30).

Another shareholder asked: 'Would it not be better for the Auditors to mention depreciation in their report?' (D3808/1/4/4, 24 September 1912, p. 30). Collier's successor as auditor, Alfred Tongue, replied: 'I am perfectly satisfied you are very well looked after, and I would suggest you leave the matter in the hands of the Directors' (D3808/1/4/4, 24 September 1912, p. 31). The shareholder repeated his request for the matter to be covered in the audit report and Tongue, with some reluctance, expressed his willingness to do so. But the following year's audit report makes no mention of depreciation, perhaps though justified by the following intervention from one of the company's shareholders: 'I believe everybody in this room is well satisfied on that point [depreciation], but there are others outside that would like the information' (D3808/1/4/4, 24 September 1912, p. 32). Thirteen years later, in an internal report to the directors, the auditors recommended an increase in the depreciation charge from £75,000, initially proposed by the directors, to £100,000 despite the latter figure exceeding actual deprecation: 'in view of the very large Carry Forward [of profit] you may think it desirable to write-off £100,000 as last Year' (D3808/1/19/1, 22 August 1925, p. 4). We can therefore conclude that the auditors were complicit, and sometimes instrumental, in the adoption of financial reporting practices designed to conceal the full extent of SCI Ltd's profitability.

The next sub-section rehearses further evidence of understatement of SCI Ltd's profitability and financial position.

Other Prudent Practices

Markham advised the 1870 AGM that 'the accounts which have been presented are as honest & truthful as they can be made'. But use of the term truthful—in the case of stock-in-trade as with fixed assets—did not rule out undervaluation:

[25] No depreciation charge was made at the end of the first year of business operations, with the directors informing the shareholders: 'they have not yet had sufficient experience of the wear of the Works at Staveley to determine the amount necessary for this purpose' (Directors' Report, 1864).

[26] Son of JJJ Barrow from his second marriage who, together with other siblings, inherited his father's shares.

> I am certain it is taken at a fair valuation & considerably below what it has been taken at in former times. We have gradually been getting it down to a proper limit … I know that this 'Stock'[27] is often a suspicious thing, and that many Limited Companies take advantage of it. I can however honestly say that the stock of the Staveley Company has never been taken more fairly since it has been a Company. (D3808, 1/4/1, 26 August 1870, p. 82)

The undervaluation of stock appears to have been a persistent practice with the auditors' private report to the directors dated 23 August 1927 stating that William Humble—one of the company's technical directors—had confirmed that 'the Investments stand substantially lower in the books than their present value', that the stock figure has been 'taken on a low basis' and the reserve for bad debts 'is more than ample for its purpose' (D3808/1/19/1, pp. 2–3). In a similar vein, the auditors commented, in 1935, that 'Stocks appear to be conservatively valued, and have been certified, as usual, by your Managing Director' (D3808/1/19/2, p. 9). Specifically, the figure for stock included pig iron valued at about 6s. per ton below cost and materially below current market price. Three years later, the stock of pig iron was valued at 50s. per ton compared with an average cost figure of 73s 1d which is 'materially below the current market price' (D3808/1/19/2, p. 11). In addition, an undisclosed deduction of £100,000 was made from 'the total value of Stocks and profit' in 1938 (D3808/1/19/2, p. 11). The adjustment was reversed, in the following year, to smooth, significantly, the trend of reported profit, that is, the outcome being that SCI Ltd reported a modest fall in reported profit of £37,278 in 1939 (from £498,568 to £461,290—see Table 1) rather than a sharp decline—absent the secret reserve—of £237,278, that is, from £598,568 to £361,290 (D3808/1/19/2, p. 2). It is therefore apparent that the use of secret reserves to boost reported profit continued, in some quarters, for some time after the court expressed disapproval of that practice in *Rex v. Lord Kylsant and another*, 1931 (Edwards, 2019a, ch. 9.4).

Turning to the treatment of estimated liabilities, the figure for Insurance and other Reserves of £290,861 reported in the 1931 balance sheet included provisions for taxation and contingencies amounting to £150,861. Of this latter figure, according to the auditors, approximately £90,000 'may be considered free' (D3808/1/19/2, 22 August 1931, p. 12). The excess provision increased to £100,000 in the following year and remained at roughly that figure throughout the 1930s. None of these issues were commented on in the auditors' report to the shareholders.

The next section explores the perceived relevance of SCI Ltd's financial reporting practices for investor decision making and share price determination.

[27] Historians need to be alert to the fact that, during accounting's history, the same word has sometimes been used to signify different realities (Parker, 1994; Nobes, 2015). For example, Parker (1994, p. 77) points out that, in earlier times, the word 'stock' was used to denote 'claims on goods [i.e., capital] not the goods themselves'. However, it is clear that the term stock was used, here, as an abbreviation for stock-in-trade, i.e., inventories.

REPORTED PROFITS AND BUSINESS VALUATION

Throughout most of the period covered by this paper, the directors of SCI Ltd followed a policy of writing off significant amounts of capital expenditure against revenue immediately it was incurred rather than treating such sums as additions to property, plant, and equipment to be depreciated over their expected useful economic life. Table 1 reveals that amounts written off over the 32-year period to 1895 amounted to £493,279.[28] These practices were the subject of a fascinating exchange between JJJ Barrow, director, and the company's auditor, Alfred Tongue, at the start of the following year. The essence of the dispute was that JJJ Barrow, who had inherited his father's huge investment in the company, believed that, if the market was aware of the material understatement of fixed asset values, SCI Ltd's shares would change hands at a much higher price. Barrow's letter to the board, discussed on 25 February 1896, contained the following:

> it is of the highest importance to [my family] as well as to the other shareholders that true statements of accounts should be shown on the balance sheets, *as it might seriously affect the value of the shares* of any of those who might wish for any reason to deal with them (D3808/1/2/7, p. 11, emphasis added).

Barrow continued (D3808/1/2/7, p. 12, emphasis added):

> balance sheets have lately been very much discussed in various quarters & [it is] universally admitted that they ought to be made out according to the facts so that the shareholders should have the same information as the Directors have *to enable them to judge of the value of their property*.

Barrow presents empirical evidence to support his case: 'We have a very striking example in the case of Armstrong Mitchell & Co. where a true valuation was made, the shares became of more than 50 per cent of increased value although then nearly 100 p.c. premium' (D3808/1/2/7, p. 12). Reflecting further on the position of SCI Ltd:

> notwithstanding at least £600,000 has been spent on the property [over the period since the 1873 revaluation], the Colliery asset is now stated at nearly £100,000 less[29] than it was before this money was laid out, to say nothing of the value of the additional leases we now hold (D3808/1/2/7, p. 11).

[28] This comprises the amounts written off between 1871 and 1876 of £164,824, between 1885 and 1895 of £168,455 (£150,961 before striking the balance of profit and £17,494 as an appropriation of profit) and £160,000 against reserves over the nine years following their creation in 1873 and 1874 (see Table 1).

[29] The balance sheet figures for fixed assets were £863,181 in 1873 and £780,449 in 1895.

While Tongue believed that the quoted market price of £75[30] 'gave the true value of the property', Barrow insisted: 'if the purchaser knew that at least an average of £36,000 a year[31] had been taken from Revenue to spend on the works, the shares would be worth at least £100 per share or probably more' (D3808/1/2/7, p. 12).

Tongue, by way of contrast, argued that amounts written off fixed assets were reasonable and that sufficient information was released into the public domain to enable the market to reach informed decisions concerning the value of SCI Ltd's shares. His letter to the board, discussed on 24 March 1896, addresses Barrow's two main points, namely that too much had been written off fixed assets, and that the shares would change hands at a much higher figure if shareholders were fully aware of the facts.

Tongue points out that deductions between 1873 (the date of the revaluation which gave rise to a share bonus issue of £391,000) and 1896, totalling £550,429, amount to an average annual charge of £25,000 'which is rather less than 3 percent per annum … a rate that cannot be considered excessive for wasting Colliery properties' (D3808/1/2/7, p. 18). In computing this figure, Tongue omits the £160,000 of capital expenditure written off against reserves over the period 1876–1883 on the grounds that these transactions were reported in the accounts.[32] Tongue further justifies the current carrying value on the grounds that, since incorporation, share capital had been increased from £391,000 to £807,000, during which time the coal get had only increased by 23%, from 879,000 to 1,083,885 tons per annum. Also, 'the whole of the pits on the Staveley estate, included in the original transfer, are now closed with the exception of Seymour' (D3808/1/2/7, p. 19). In summary: whereas Barrow, according to Tongue, 'implies that excessive sums have been kept back, & expended on purchasing new properties without the Shareholders' knowledge', the auditor's view is that charges are shown to have been 'only upon a moderate basis though perhaps on the whole invested better than depreciation funds often are' (D3808/1/2/7, pp. 19–20).

Tongue then turned his attention to the question of how the market values shares: 'In a former letter to Mr Barrow I mentioned that the *market valued the shares so as to include expenditure out of profits on account of Capita*l' (D3808/1/2/7, p. 20, emphasis added).[33] Tongue drew attention to the fact that the market

[30] 'A' shares changed hands on the Sheffield Stock Exchange at 82½ on 18 February 1896 (Sheffield Stock Exchange, 1896, p. 3).

[31] Table 1 reveals that the amounts written off over the period 1874–1895 totalled £744,357 (capital expenditure written off directly to revenue £291,566; depreciation £292,791; capital expenditure written off against reserves £160,000). This represents an annual average of £33,834 which is fairly close to Barrow's figure.

[32] Using Tongue's approach, i.e., excluding the £160,000 written off against reserves, gives an average of £26,562 based on the figures in Table 1.

[33] The fact that assets were valued conservatively and that certain capital expenditures had been written off against revenue is alluded to from time to time in the directors' report and at the AGM, but amounts remain unspecified, up to 1896, except for the total of £17,494 deducted in 1885 and 1886 (Table 1) and £160,000 written off against reserves.

capitalization of the shares was about £304,000 in excess of nominal value;[34] 'a sum largely in excess of the £160,000 Reserve Fund which has been sunk & this I think supports my contention' (D3808/1/2/7, p. 20). His claim that it would not be beneficial to revalue the assets is based on the following further argument (D3808/1/2/7, pp. 20–21):

> Your assets will not provide any larger measure of value merely because you call them more nor will you be able to pay more dividend, but on the contrary, if you add 50% to your valuation you must add 50% more to your annual charge for depreciation, and so reduce considerably the actual balance available for dividend.

Tongue also points out 'that you have not any large margin of liquid assets which could be converted into cash and divided' (D3808/1/2/7, p. 21). The auditor concludes his analysis by predicting that, over the next few years, it will be difficult to pay a dividend representing more than a 5% return on market value, 'and although in good times, such as we recently had, you may be able to pay much larger dividends, still the average results, with all the contingent risks, is not sufficient to warrant any larger capitalization'.[35]

Barrow remained unconvinced. In a further letter considered by the board on 24 March 1896, he insisted that the accounts should 'show the real value of our property' (D3808/1/2/7, p. 22). He pointed out that the CFS of Bolckow, Vaughan & Co. Ltd and Sheepbridge Coal & Iron Co. Ltd—large, quoted companies in Yorkshire and Derbyshire also audited by Tongue's firm—stated their assets 'as per valuation' as SCI Ltd had done until 1878, and believed that the practice should be revived. To buttress the case for a higher valuation, Barrow further argued: '20 years ago we had leases with 18 years to run, and have now leases with an area of about four times the acreage & with 80 years to run in their place'. Also, 'we have now an output of 1200,000 tons of Coal, and will have one of 1500,000 tons at least in about a year as against a little more than 600,000 tons' in the mid-1870s (D3808/1/2/7, p. 22).

Tongue was unmoved by these arguments pointing out that SCI Ltd dropped the words 'as per Valuation' in 1879 'as being somewhat misleading … Unless the Company is prepared to go to the expense of a revaluation every year which would shew great fluctuations there is not sufficient justification for the words' (D3808/1/2/7, p. 23).[36] Tongue further explained that, although Bolckow,

34 Tongue's estimate seems about right. The quoted share prices of SCI Ltd reported in *The Sheffield & Rotherham Independent* newspaper for 18 February 1896 (Issue 12919, p. 3) produces a market capitalization of £1,074,963 compared with a nominal value of £782,000 .

35 As it turned out dividends over the five years 1896–1900 totalled 68.74% on issued share capital or 13.75% per annum.

36 Lawrence Dicksee (1903, p. 227), who is credited with supplying 'a literature for accounting single-handed' (Kitchen and Parker, 1980, p. 59), acknowledged the possibility of calculating depreciation as the difference between revaluations made at successive accounting dates but considered it 'very defective in practice, on account of the uneven sums that it charges against Revenue from year to year in respect of practically identical services rendered to Revenue by the asset in question'.

Vaughan, and Sheepbridge continued to employ the term ‘valuation’ when describing fixed assets (a practice which he admits required modification), each treated capital expenditure in exactly the same way as SCI Ltd—that is, at an earlier valuation plus subsequent additions.

Turning to Barrow’s point concerning the length of leases and the output of coal, Tongue states:

> I am quite sure that unless your shareholders had reasonable anticipation of extending the life of the Collieries there was not in your concern 20 years ago anything like its book value. Today it is probably worth more than its book value & the *market recognises the fact & pays a premium for the shares* (D3808/1/2/7, pp. 23–24, emphasis added).

The Board resolved: ‘the accounts & balance sheets have been correctly made out & presented to the shareholders from year to year’ (D3808/1/2/7, p. 24). JJJ Barrow and his son John Burton Barrow (also a director) dissented from this resolution.

The connection between reported profits, asset values, and share price again took centre stage at the 1929 AGM where the chartered accountant and shareholder, V. Smith, complained that the reported profit for the year, of £306,117 (Table 1), was sufficient to cover a dividend of 9% but only 5% has been paid which, for shareholders like himself who had bought at 28s., represented a return of only 3.5% (D3808/1/4/5, 25 September 1929, pp. 56–57). Smith insisted that more could have been paid out given that the profit calculation was made ‘on a conservative basis’, while there was also a balance of £572,408 on depreciation reserve which, together with the general reserve, renewals reserve and taxation reserve, gave a total of £1,490,408 (D3808/1/4/5, 25 September 1929, p. 57, emphasis added). He continued:

> I am a Chartered Accountant of 38 years experience, and I quite approve of the policy of being on the safe side, but I do think that the policy of the Staveley Directors who put away profits assiduously year after year has gone too far. The Shares are now only 23/- … [and] it is poor consolation [for the shareholders] to know that *their concern is worth a very great deal* more than that which appears on the balance sheet.
>
> If nationalization comes,[37] more benefit would come to the Company if the shares stood higher … I do not approve of the policy of the Directors in putting away profits that have been earned, and then at different periods making a Bonus Issue. It is a great hardship to those who risk money, and receive such small dividends on their shares.

J.H. Swift, weighed in with the observation that reported profit was £200,000 in 1928 and £300,000 in the current year[38] and, therefore, ‘You could have paid [a dividend of] 7½% free of tax for the year, and still have had nearly £50,000 to

[37] Nationalisation did occur, but not until 1 January 1947.

[38] The precise figures were £204,722 and £306,117 (Table 1).

spare'. Swift continued: 'such chaps as me who are getting on in years would like to get it [dividends] today instead of waiting for years' (D3808/1/4/5, 25 September 1929, p. 59).

The chairman, Sir William Bird, drew attention to the fact that liquidity had suffered because of heavy capital expenditure, and that there was only a small cash balance available. He concluded: 'frankly we do not propose to borrow money for the purpose of paying dividends' (D3808/1/4/5, 25 September 1929, p. 58). Bird nevertheless agreed that the shares were valued 'absurdly low' and believed 'that anyone who sold them at this [current] price would be very foolish, but as you know the price of the shares is not always a criterion of the value of the property' (D3808/1/4/5, 25 September 1929, p. 58). Bird made no attempt to answer issues raised by Barrow and Smith, which boiled down to the following: should not the company report numbers in the accounts that would help make the market for the company's shares more efficient?

PROFITS, DIVIDENDS, AND FIXED ASSET WRITE-OFFS

This section seeks to further illuminate the accounting practices employed at SCI Ltd by drawing on the content of Table 1 to examine the statistical relationships between profits, dividends, and fixed asset write-offs.

Reported Profits and Dividends

Figure 1 graphs the relationship between reported profits and dividends for each year throughout the study period 1864–1940. It gives rise to a statistically significant correlation coefficient (R) of 0.963, implying a strong relationship between the two variables.

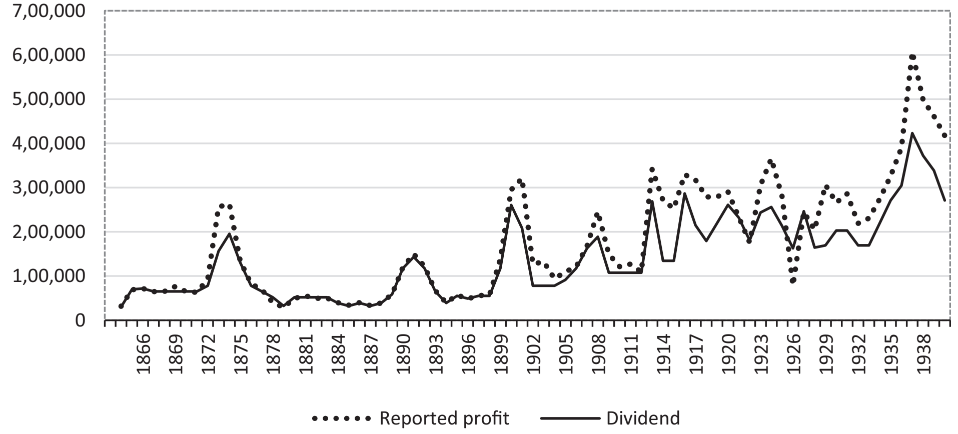
From 1913 the directors adopted a policy of making substantial transfers out of profit to reserves, doing so in 20 of the 28 years through to 1940 (Table 1).[39] Separate calculations were therefore made of R for the period up to 1912 and from 1913 through to 1940 to examine whether the new policy impacted upon the relationship between profits and dividends. For the earlier period, R was found to be 0.962, that is closely in line with that of the entire study period. Thereafter (1913–1940), it remained strong and statistically significant at 0.864, though, as is apparent from Figure 1 and Table 1, the period witnessed much higher retentions of profit than had been the case in the first 49 years of the company's existence.

Figure 1 reveals that dividends significantly exceeded reported profits in just one year—1926—when operating profits fell dramatically from £279,135 to £78,588 due in part to the coal strike that ushered in the UK General Strike.

[39] As noted above, the directors made just two earlier transfers to reserves totalling £160,000 in the years 1873 and 1874, which were used to write-off an equivalent amount of capital expenditure over the next nine years.

FIG 1

REPORTED PROFITS AND DIVIDENDS 1864–1940



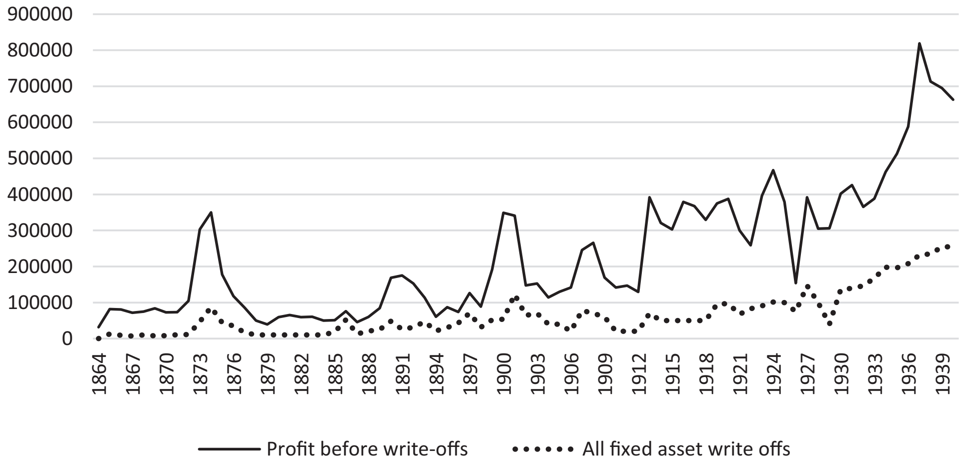
In that year, £80,000 was transferred from reserves previously made for taxation, which had turned out to exceed the company's financial obligations to the Treasury. The transfer, which doubled reported profit, was disclosed on the face of the balance sheet and in the directors' report. Ironically, it is for exactly the same year—1926—that the published accounts of the Royal Mail Company formed the basis for prosecuting the company's managing director (Lord Kylsant) and auditor (Harold Morland of Price, Waterhouse) for making an undisclosed transfer from a secret taxation reserve. It was a machination that transformed the Royal Mail's operating loss of about £300,000 into an apparently healthy profit of £439,212 (Edwards, 2019a, p. 157).

Profits and Fixed Asset Write-offs

Figure 2 compares profit, before making any fixed asset write-offs (capital expenditure and depreciation), with the amounts written off. The images reflect a statistically significant correlation coefficient of 0.912 over the study period; similar statistically significant values being found for sub-periods where changed circumstances might have been expected to reveal different *R* values. Thus, for the period from 1864 to 1888, during which Charles Markham, a strong advocate of conservative finance and financial reporting practices, was the dominant figure at SCI Ltd, the correlation coefficient was 0.844, rising only marginally to 0.884 thereafter. Despite Markham, as previously noted, being described as an early example of the professional manager, the managerial approach at SCI Ltd to 1940 appears more consistent with the personal-proprietorial capitalism that Wilson and

FIG 2

PROFITS AND FIXED ASSET WRITE OFFS 1864-1940



Thomson (2006, p. 21) claim dominated British business between the 1870s and 1940s, rather than Chandler's managerial capitalism.[40] SCI Ltd did, however, experience an increase in the number of shareholders from 123 in 1864 to 962 in 1911, suggesting some widening of the divorce of ownership from control (see Foreman-Peck and Hannah, 2012, 2013). After SCI Ltd's shares became listed on the London Stock Exchange in 1908, the correlation coefficient increases to 0.880 for 1908–1940 compared with 0.788 for the period 1864–1907.

We can therefore conclude that there was a strong and statistically significant connection between the levels of profits and amounts written off throughout the entire study period which was unaffected by the presence or absence of Charles Markham as chief executive. However, there was a modest increase in the linear correlation between the two variables as SCI Ltd's shares became more widely available to prospective investors and the number of shareholders increased.

What do these numbers tell us? Although Figure 1 alerts us to a strong correlation between reported profit and dividends, cause and effect remains hidden. Did the directors make an unbiased calculation of reported profits and then decide how much to divide, or was it the other way around, that is, the directors decided how much they

[40] Chandler's 'managerial capitalism' (1984) concept reflects early twentieth century developments in the US, in particular an extensive divorce of ownership and control (as represented by an increase in the number of shareholders and appointment of professional managers), and the adoption of the multi-divisional format organisational structure. Chandler contended that British firms, in contrast, continued to be dominated throughout our study period by personal or family capitalism, i.e., family-based ownership and management, while Wilson and Thomson believe that the term personal-proprietorial better describes what was going on. This latter term reflects the continuing existence of elements of Chandler's personal capitalism alongside the 'proprietorial capitalism' of Quail (2000), tacitly acknowledging that the British family-based system of management, although not overturned before the 1940s, was nevertheless impacted by certain external forces.

wished to pay shareholders and then adjusted reported profit accordingly? Certainly, it is fairly clear from the contents of SCI Ltd's archive that the directors aimed (or at least claimed to aim) to maximize the returns for shareholders in the form of dividends. We also know that their priority was to protect the interests of the long-term investor rather than the short-term speculator, though it was recognized that the former would engage in share trading at some stage.

The correlation coefficient for fixed asset write-offs compared with the level of profits prior to those charges being made may help, a little, in detecting cause and effect. The amounts written off, under modern-day generally accepted accounting principles, are expected to comprise an unbiased assessment of the likely decline in the economic value of the asset to the firm. The depreciation method, once chosen, is applied to the carrying value of fixed assets whether profits are high or low, or even where losses are incurred, based on the presumption that the serviceable value of the asset declines each year.

At SCI Ltd, fixed asset write-offs instead appear to be a function of profit throughout the study period. This signals evidence of a degree of profit smoothing—given that charges may be interpreted as excessive when profits are high and deficient when profits are low—designed to ameliorate fluctuations in the amount of the annual dividend.[41] These objectives receive expression from directors addressing the AGM on a number of occasions. For example, Pochin informed the 1873 AGM that £46,000[42] spent on additional blast furnaces and sinking pits during the year to 30 September had been charged to revenue as part of a policy designed 'to enable the Directors, as they believed, to pay a reasonable dividend even in bad times' (6 September 1873, D3808, 1/4/1, p. 134). And, as noted above, at the following year's AGM Pochin reiterated this view, emphasizing that the company's policy was to try to provide a stable dividend flow for the long-term investor even though, as Table 1 reveals, this was not always possible.

CONCLUDING REMARKS

Until the Companies Act 1947 took effect, the amount of financial information reported in the CFS of most industrial and commercial companies was, overall, fairly limited. It was limited by comparison with what the accounts could have contained, by comparison with practices in certain industries, such as the railways, which were the subject of weightier statutory requirements for accountability, and by comparison with practices in the country with which Britain had the closest economic and political connections, the US. The greater level of disclosure by US companies is attributed to a number of factors, which include successful demands from shareholders for information as the basis for share trading decisions and the

[41] The smoothing of dividends could potentially also impact on share price but, due to concerns over length, this is not an issue that we pursue in this paper.

[42] The source of the figure of £46,000 is unclear, but is perhaps an approximation of the undisclosed capital expenditure write-off £36,810 plus undisclosed depreciation £9,805 (Table 1).

slow development of an independent professional audit as an alternative protection for investors. In Britain, by way of contrast, the continued use of secret reserves to undermine the utility of CFS, as late as the third decade of the twentieth century, was typically justified in the following manner:

> Profits should not appear to fluctuate too violently in the interests of all concerned, with the exception perhaps of the merely temporary shareholder, or gambler in the company's shares, whom, I think, one need hardly consider in such a case (Secret Reserves, 1925, pp. 537–8; cited in Maltby, 2007, p. 11).

According to existing conventional wisdom, shareholders in British companies instead relied, for protection, on the fact that CFS had been audited by experts and that shareholders could, if they wished, attend and cross-examine corporate management at AGMs (Maltby, 1998). The conventional wisdom further insists that, because CFS were of limited use for the purpose of estimating the value of corporate stock, share prices were instead based on dividend yield until 'reforms which came with the 1948 Companies Act'[43] took effect (Rutterford, 2004, p. 117). Up until that time, CFS are judged to have fulfilled a narrow stewardship function, with their decision-making role first articulated by 'golden age' normative thinkers in the 1950s and 1960s and given further attention by regulatory bodies starting, in Britain, with the publication of *The Corporate Report* in 1975 (Accounting Standards Steering Committee, 1975).

This paper provides historical evidence to support the view that stewardship and decision usefulness should not be seen as competing or mutually exclusive financial reporting objectives during the history of the modern limited liability company created in 1855 (Pelger, 2020). It reveals that, during the so-called stewardship era, which stretched from 1855 to beyond the end-date of this paper, reports of profit and financial position played a part—certainly they were expected by shareholders to play a part—in investment decision making. That is, accounting information was intended to enable investors to look forward as well as backward in time. Moreover, SCI Ltd's archives are redolent with assertions from management of a determination to keep existing shareholders fully abreast of corporate performance and financial position. Buttressing the evidence already rehearsed, Pochin informed the 1867 AGM (D3808, 1/4/1, 30 August 1867, p. 39) that 'the Directors had no wish to hide anything from the Shareholders' and, in the following decade, acknowledged:

> an obligation on the part of the Directors to explain the matter fully to the shareholders when we meet. I am sure I am speaking the sentiments of every Director when I say that it is our desire at these Meetings that every shareholder should know as much about the property as we do (D3808, 1/4/2, 31 August 1875, p. 6).[44]

[43] As noted above, the reforms were introduced by the Companies Act 1947 though they did not come into effect until 1948.

[44] For the expression of similar sentiments, see Sir William Bird's address to the 1926 AGM (D3808/1/4/5, 27 September 1926, pp. 25–26).

In a similar vein, Charles Markham (D3808, 1/4/1, 26 August 1870, p. 82) sought to 'assure' those attending the 1870 AGM 'that the accounts which have been presented are as honest & truthful as they can be made'. But the directors remained reluctant to include much detail in the CFS for fear of it finding its way into the hands of competitors or a belligerent workforce (Edwards, forthcoming). As we have seen, management was also wedded to a policy of prudence in financial affairs as a defence against fluctuations in business conditions; a policy that privileged the priorities of the loan creditor and long-term investor over those of the short-term speculator. Thus, the directors sought to supply additional information required by shareholders through detailed analysis of the accounts at the AGM, performed by the chairman,[45] and the invitation to 'call at the Offices or write' to the directors (D3808/1/4/5, 27 September 1926, p. 25). But we also know that the directors' measurement practices reached beyond the '"cautious" response to uncertainty' embodied, today, in the prudence concept, to embrace conservatism defined as 'deliberate understatement' of a company's financial position (Barker, 2015, p. 515, p. 520). Given that expenses were overstated when profits were buoyant and reduced when profits declined, a degree of profit (and thus dividend) smoothing inevitably resulted. Nevertheless, within the time-period of this study, SCI Ltd's leaders remained convinced that such reporting practices were fully justified by business uncertainty and best served the interests of investors.

We can, therefore, conclude that the company's CFS suffered from deficiencies that were mitigated, to an extent, by the provision of information through other channels. But the idea that CFS were little used for decision-making purposes in those earlier times is counter-intuitive, and probably erroneous, given that there was a well-developed network of stock exchanges (provincial and national) on which industrial and commercial companies, as well as railways and public utility companies, were quoted, the shareholdings of which were widely dispersed among the investing public (Campbell and Turner, 2011; Foreman-Peck and Hannah, 2012). In addition, there was an active market for publications that contained reports of corporate financial performance starting with railway journals such as *The Railway Times*, commencing 1844, and those with a broader industrial coverage such as *The Economist* (1843), *Chadwicks' Investment Circular* (1870), *Investors' Monthly Manual* (1864), and *The Statist* (1878). Such information might also appear in local newspapers such as the 5 September 1868 issue of *The Derbyshire Times*, which stated that 'the net profits [of SCI Ltd] for the past year were announced as £65,040, thus enabling the directors to declare a very good dividend' (Staveley Coal and Iron Company's Annual Meeting, 1868, p. 3).

There is much to learn about the role of accounting information in shareholder decision making in the past and, probably, that still remains the case today. For earlier times, detailed statistical analysis may provide further insights into the

45 Presiding over his first AGM as chairman, C.P. Markham observed: 'In reference to the Balance Sheet presented to you, it has I believe been usual to go through it item by item, and compare it with that of the previous year' (25 September 1894, D3808/1/4/3, p. 29). This he then proceeded to do.

impact of accounting policies on reported profit and dividend payouts, and also the efficiency of stock markets in valuing company shares. Nevertheless, there is sufficient evidence presented in this paper to support elements of Bryer's thesis concerning the limitations and potential of early published financial reports:

> although the *published* accounts of late nineteenth-century listed companies were manipulated, because accountants worked with a clear and generally accepted conceptual framework and auditors were assigned a central role in investor protection, and the fact that investors were provided with other essential information, late nineteenth-century MFR provided investors with useful information[46] (Bryer, 1993, p. 651).

It is important to remain aware of the importance of criticizing and reviewing past events within their unique historical context. Although many experts today seriously doubt whether prudence has any part to play in the construction of decision-useful published accounts, it is not a unanimously held view. Indeed, an awareness of vacillations, among the regulators, in ideas concerning the appropriate role of prudence within conceptual frameworks in recent decades serves as a strong reminder that accounting is no more than a social construction which, hopefully, is continually adapting to changing circumstances. The adoption of a strong form of prudence, resulting in the deliberate understatement of profits by the directors of SCI Ltd between 1864 and 1940, should not be construed as ignorance on their part or as evidence that the accounts lacked decision-usefulness. Whether their approach was typical of businessmen of the period examined is clearly an issue that requires further studies of the kind reported here. At a time when the principal users of CFS were judged to be the long-term investor and the creditor, and when there existed a greater respect for the dangers of business uncertainty than appears to have been fashionable in recent decades, caution in the valuation of assets and measurement of profit had (and perhaps has) much to commend it.

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[46] We acknowledge the fact that the designation 'useful' remains 'not proven' given that the mindsets of early corporate investors are unavailable for study.

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