

HAROLD CECIL EDEY

# STUDIES IN THE DEVELOPMENT OF ACCOUNTING THOUGHT

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STUDIES IN THE DEVELOPMENT OF  
ACCOUNTING THOUGH VOLUME 23

**HAROLD CECIL EDEY:  
A COLLECTION OF  
UNPUBLISHED MATERIAL  
FROM A 20TH CENTURY  
ACCOUNTING REFORMER**

EDITED BY

**MARTIN E. PERSSON**



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INVESTOR IN PEOPLE

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# FOREWORD

This edited volume contains 13 of Harold Cecil Edey's (1913–2007) unpublished essays, manuscripts, and speeches. I first became aware of Edey and his contribution to the development of accounting thought as a graduate student at the London School of Economics and Political Science (LSE) in 2009. Sara Rossberg's portrait of Edey still hangs on the walls of the Department of Accounting on the third floor of the Old Building, and, at least during my time, faculty members were still offering coursework on deprival value, a concept introduced by Bonbright (1937) and later developed by Edey and his colleagues in the 1970s (Baxter, 2003; Edey, 1974b; Solomons, 1961). During my ensuing doctoral studies, my focus shifted to the Australian academic Raymond J. Chambers (1917–1999) and his contribution to accounting thought, but, once I graduated in 2013, I had a chance to revisit the former while I worked through the Harold C. Edey Collection at the Archives and Special Collections at the British Library of Political and Economic Science. This volume is the result of that work.

The volume is also part of a larger research program to preserve the historical record of the development of accounting thought (e.g., see Persson, 2016, for a similar compilation of A. C. Littleton's unpublished work). Whittington (1994) describes how the "LSE Triumvirate" – Edey and his colleagues William T. Baxter (1907–2006) and David Solomons (1912–1995) – influenced a "generation of students" who came to populate the British accounting profession and academia to the point where, in the early 1970s, half of all full-time accounting professors in the United Kingdom were LSE alumni (see Table 3 in Parker, 1997). While Chambers, Solomons, and Baxter were all inducted into the Accounting Hall of Fame in 1991, 1992, and 2005, respectively, for their contribution to the development of accounting thought, Edey has not receive the same honor.<sup>1</sup>

There are at least three contributing factors for this underappreciation of Edey's contribution.<sup>2</sup> First, there was a scarcity of outlets for academic research during Edey's tenure, and less institutional pressure to publish, which resulted in a modest amount of publications compared to present standards (see Napier, 2011, for the British context and Previts & Flesher, 2016, for the American context). Second, Edey was more of an institution builder in similar vein as, for example, Alvin R. Jennings (Persson, Radcliffe, & Stein, 2015), Elmer G. Beamer (Persson, Radcliffe, & Stein, 2018), and Vernon K. Zimmerman (Schoenfeld, 1996), whereas Chambers (Clarke, Dean, & Persson, 2019), Baxter (Bromwich, Macve, & Ranger, 2006), and Solomons (Zeff, 1995) focused primarily on research, which, in turn, left behind a comparably larger body of work for subsequent generations to appreciate. And, third, the capital market research paradigm that began at the Universities of Chicago and Rochester in the late 1960s led to a situation where Edey's concerns with improving the accounting measurements used

in financial reporting was replaced with efforts to investigate the market response to accounting numbers using new methods from financial economics and statistics (for more about this transition, see Dyckman & Zeff, 2015; Jeanjean & Ramirez, 2009; Whitley, 1986).<sup>3</sup>

Edey was born in South London in 1913, and he remained in the city through secondary school. He articulated with a small local firm, John Baker Sons & Bell in 1930, and qualified as a Chartered Accountant with the Institute of Chartered Accountants in England and Wales (ICAEW) in 1935. The following years were spent working at Deloitte, Plender, Griffiths & Co. (today Deloitte), Whitehall Securities Corporation (today Pearson PLC), and then serving in the Royal Naval Volunteer Reserve during the war effort. Edey received a “Class A” release after the defeat of Germany, and he returned to London to complete a B.Com. degree at the LSE, graduating in 1947.<sup>4</sup> His performance in the coursework led to an appointment as a research assistant to the economist Frank Paish, then a part-time lectureship, and eventually a full-time lectureship in accounting and business finance in 1949 (for more biographical information about Edey, see Appendix 1; Bailey, 2009; Macve, 2007).

With his full-time appointment at the LSE, Edey joined Solomons and Baxter – appointed in 1946 and 1947, respectively – at an institution that had been at the forefront of accounting education since its establishment as an independent entity in 1895. The B.Sc. degree in economics was one of the first of its kind to incorporate accounting in its curriculum in 1902. The course offerings in accounting expanded with the establishment of the B.Com. degree after the First World War, and, after the Second World War, these three individuals formed what Whittington (1994) refers to as the LSE Triumvirate (for more about the history of the LSE, see Abse, 1977; Cain, 1963; Dahrendorf, 1995). The triumvirate was part of the reorientation of the faculty from its roots in professional practice to one that drew heavily on insights from their colleagues in economics, such as Friedrich Hayek, John Hicks, Lionel Robbins, and Ronald Coase. This influence took the form of a research program that sought to address the flaws in conventional accounting measurements, which would become increasingly apparent with the rise of inflation in the late 1960s (for more about this research program, see Napier, 1996a, 1996b).

During his tenure at the LSE, Edey participated in the establishing of the Department of Accounting in 1962 and the offering of the first M.Sc. program in accounting in the UK in 1967. He was promoted to a Reader in 1955 (a uniquely British academic rank situated between the positions of Associate and Full Professor); Full Professor in 1962; and the university’s first Pro-Director in 1967. Edey also served in various capacities outside of his home institution, such as a member on the board that led to the establishment of the London Business School; as the first academic member of ICAEW’s Council; and as a founding member of the Accounting Standards Steering Committee.

Edey retired as Professor Emeritus in 1980, but he continued to work after his retirement as evidenced by the inclusion of the last three manuscripts in this edited volume. He received an honorary professorship from University College

Wales (today Aberystwyth University) in 1980; an honorary fellowship from the LSE in 1986; and a life membership from the ICAEW in 1999. In recognition of his contribution to the development of accounting thought and the discipline, Edey also received numerous awards such as the Founding Societies' Centenary Award from the Institute; a Doctor of Laws, *honoris causa*, from the Council for National Academic Awards (today the Open University); and the Queen Elizabeth II Silver Jubilee Medal (see Appendix 1 for more details about these activities and honors).

I was alerted to the existence of the Harold C. Edey Collection from a footnote on p. 91 in Edey's edited autobiography (Bailey, 2009), which made a reference to a collection of unfinished manuscripts being stored at the Archives and Special Collections at the British Library of Political and Economic Science. The entire collection is made up of 11 boxes of material, some of which is unsorted. Out of this material, I identified a total of 26 unpublished items of potential interest when visiting the archive in 2014. One of these items – a one-act play that Edey had written as a way to teach accounting theory and measurements during an annual “residential course” held at the LSE in the late 1950s – was prepared for publication in *Accounting History Review* (Persson & Fafatas, 2018). The rest of the material remained idle, until I had secured copyright permission to republish the material and a grant from the CPA-Ivey Centre for Accounting & the Public Interest in 2017 to cover the cost of transcribing it from the carbon copies and handwritten notes contained in the archive.

The 26 unpublished manuscripts in Edey's collection were later narrowed down to the 13 items contained in this volume. These items, several of which in early draft form, were written over a time period spanning almost 40 years and are reproduced as closely as possible to their original form. My editorial changes have been limited to the adding of missing or incomplete references; the consistent formatting of items such as the font, headers, and use of italics; and the implementation of the changes that Edey had indicated in his handwritten notes on the carbon copies of his manuscripts. My editorial comments are prefaced with “Editor:” and appear in the footnotes at the end of each chapter along with Edey's footnotes in the original material. Whereas the number of editorial footnotes varies throughout the chapters, I have taken the liberty of introducing at least one footnote at the beginning of each manuscript that aims to situate the material in its historical context. I have also added two appendices: an aide-mémoire and a chronological list of all of Edey's publications.

The 13 manuscripts in this volume stand on their own, but interested readers might want to consult *Accounting Queries* (1982), which is an earlier edited volume of a selection of Edey's published work. In the introduction to *Accounting Queries*, Edey credits the American economists Irving Fisher and James Bonbright for providing his analytical framework for financial decision-making; the LSE economists Lionel Robbins, Arnold Plant, and Frank Paish for guiding his reading in economics; and his colleagues Ronald Coase, William Baxter, David Solomons, and Basil Yamey for helping him connect the logical foundations of accounting with economic theory. Readers familiar with Edey's writings

will also notice these influences on the present collection, which contains material that overlap in time with those in the previous volume. The central tenant of his writings here, as in the previous volume, remains that:

[o]ne cannot usefully determine accounting procedures by a vain search for the “correct” meaning of the words “profit” and “income.” A useful definition of these words can be found only in the procedures used to find the numbers in question, and then only in a particular context. (Edey, 1982, p. 1)

Edey’s emphasis on the context and procedure when choosing between alternative accounting measurements comes through in all 13 manuscripts included in this volume. This position is perhaps its clearest, however, in the last manuscript, “Financial Accounting,” where Edey argues that companies should be allowed to use non-standard accounting measurements as long as the rationale behind them is explained to the reader (note that he wrote this in the 1980s and well before non-GAAP measurements were commonplace). This emphasis on the context and procedure also puts Edey’s thoughts on accounting theory in an interesting position *vis-à-vis* his contemporaries. He would be in disagreement with inductive theorists such as A. C. Littleton (1933) – who argue that the use of a particular practice validates the usefulness of that practice – but he would also be in disagreement with deductive theorists, such as Chambers (1966), Ijiri (1967), and Sterling (1970), in their insistence on the fruitfulness of setting out a universal theory that would apply to all companies under all conditions. Pragmatic thought of this kind prevails throughout the volume, although I know of no evidence that Edey ever labeled himself as a pragmatist (for a contemporary discussion of pragmatism and accounting theory, see Rutherford, 2013).<sup>5</sup>

The first, third, sixth, and eight manuscripts of this edited volume address topics in accounting education. The potential benefits of including economics and computer science into the accounting curriculum are reoccurring themes in these items. The remaining nine manuscripts deal with matters of accounting measurements for various items and under different conditions. Edey addresses both specific issues, such as the accounting for “hire purchase” arrangements, as well as broader issues, such as accounting for changes in general-price levels (i.e., inflation). To the Editor, the most interesting of the latter is perhaps the 11th item, “Implications of Cash Flow Accounting for Management,” in which Edey builds on a number of Ronald S. Edwards’ articles to argue for the use of non-accrual-based cash budgets as supplementary statements in companies’ annual report. The basis for this suggestion is rooted in the insight that discounted future cash flows are likely to provide a better approximation of market values than the rules of accrual accounting (see also fifth manuscript for more on this).

I have a personal connection to Edey in that he convinced Christopher Napier, currently Professor of Accounting at Royal Holloway University of London, to pursue an academic career nearly 40 years ago, who, in turn, persuaded me to do the same about 30 years later. And the letters contained in Edey’s autobiography have numerous such accounts of a person that gave generously of his own time and expertise (see Appendix 5 in Bailey, 2009). In the opening paragraph of

his autobiography, Edey writes that he prefers to be remembered as a “teacher” and, in the forewords to *Accounting Queries* (1982), he writes that he hopes that the material will be of “... interest to people studying the development of ... [accounting] (p. 1).” I believe that the material contained in this volume will help accomplishing both.

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July 2019

## NOTES

1. Information about their inductions into the Accounting Hall of Fame can be accessed here: <http://aaahq.org/Accounting-Hall-of-Fame/Members>.

2. It is worth noting that Michael Bromwich, one of Edey’s former colleagues at the LSE, echoes my assessment and states that he has “... always thought that Harold’s contribution to academic research has been undervalued (Bailey, 2009, p. 146).” It is also telling that Edey is referenced more times than any of his accounting colleagues in Dahrendorf’s (1995) history of the LSE.

3. For a Kuhnian interpretation (Kuhn, 1962) of the shift from the development of normative accounting theories to capital market research, see Wells (1976), Cushing (1989), and Mouck (1993).

4. “Class A” releases were issued to some British personnel after the defeat of Germany but before the defeat of Japan. Individuals with “Class A” releases were subject to reenlistment as needed.

5. Readers interested in Edey’s position on accounting theory should also consult his article, “Why All-Purpose Accounting Will Not Do,” which is republished in *Accounting Queries* (1982). It is also interesting to note that Littleton gravitated toward pragmatism, and the work of John Dewey, in his later writings (for more about this, see Persson, 2016).

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## ACKNOWLEDGMENTS

It is a great pleasure to be the Editor of this collection of 13 of Harold C. Edey's unpublished essays, manuscripts and speeches. The journey to compile Edey's unpublished material into an edited volume began in 2014, and several individuals and organizations have helped in its completion. I would like to thank Gary Previts for accepting the manuscript for publication in Emerald's Studies in the Development of Accounting Thought series. I would also like to thank Nerys Bailey, David Edey, and the Archives and Special Collections at the British Library of Political and Economic Science for the permission to reproduce the material found in this volume. Finally, I would like to thank the CPA-Ivey Centre for Accounting and the Public Interest for funding the project; Christina Zhang, Isabella An, and Zita Lee for helping in the transcription of the material found in this volume; as well as Christopher Napier and Royce Kurtz for assisting in chasing down the references to Edey's more obscure publications.

**HAROLD C. EDEY, 1913–2007**



*Source:* This photograph was taken in the 1970s. It has been reproduced with the permission of the Archives and Special Collections at the London School of Economics and Political Science.

# CHAPTER 1

## ACCOUNTING AND THE IMAGINATION\*

I chose the title for this talk, 'Accounting and the Imagination', because teachers of accounting face a problem that is not present in the work of many of their colleagues. There is a fairly wide-spread feeling that accounting is necessarily a dull and dry subject. This is unfortunate for a number of reasons. In the first place, of course, one likes to think of one's subject as interesting and it is distressing to hear other people spurn it in this way. This is perhaps of no great importance provided one does indeed find it interesting one's self. There is, however, always the risk that if one hears a statement very often, one may come to believe in it. Secondly it is of course most undesirable that students should feel that they are learning something which by its nature is dull and uninspiring. I believe that in the ultimate analysis the main stimulation must always come from the teacher, and that if he himself is not interested in the subject in a fundamental way, the student will be unlikely to develop a burning interest in its problems. Nevertheless, it is perhaps worthwhile considering possible approaches which can make a student less susceptible to the suggestion that accounting is a dreary subject and help him to understand more readily the enthusiasm of his teacher. Speculation of this kind may also be useful for the teacher himself. I am sure that much of what I shall say will be familiar to many of you and no doubt you will think that this is old stuff. I hope that in the discussion which will follow you will give me ideas which I myself have not mentioned. As, however, no one person has the monopoly of ideas it is my hope that both in this talk, and in the discussion, some thoughts will appear which will suggest new angles of approach to accounting to at least some of those present, and that at the very highest there may be at least one new thought for each person here, including of course myself.

The so-called dullness of accounting arises from at least two quite separate considerations. The first of these is that accounting is concerned with numbers. It is a most unfortunate fact of present-day life that there are a very large number of people in this community – and no doubt in other communities, although I am

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not sure that it is true equally of all other communities, notably the United States – that quite a large number of people are frightened of figures. This is deplorable because it is the essence of everyday life, in a community like ours, that one is always in constant contact with numerical statements during one's life and the importance of these is becoming greater with every year. Nevertheless, we must recognise that the problem exists and there is no question in my mind that part of the problem of popularising, if that is the right word, accounting depends on making figures seem less uninteresting.

The numerical aspect of the problem we share of course with other disciplines, notably with the big sister – if that is the right expression – mathematics.<sup>1</sup> Here we are undoubtedly in very good company and can feel happy that we are so to speak, on the right side. The second reason for our unpopularity, however, is not shared with mathematicians, although in some degree it is perhaps shared with economists and others who are interested in what people regard as a rather sordid feature of life. I refer of course to business. A large number of people, and I am sure we can now include some mathematicians among these, think that accounting must necessarily be dull and uninteresting because after all it is concerned with very dull matters.

I am not sure that I should not add a third reason for our relative unpopularity. This is one which I have found affects me perhaps rather more than other people and I should be interested in your own feelings about this. Working as I do in a University College I cannot help noticing a slight sniffiness on the part of some of my colleagues when the word accounting is mentioned. This I am afraid to say is likely to occur even among people like economists who are concerned with this question of how people get their daily bread. Accounting, they infer, is a mere technical subject of no great depth and of no great interest. They look on it indeed rather as an expert biologist who concerns himself with the growth and decay of timber would regard a carpenter.

I propose to devote the rest of this talk to considering whether these criticisms are valid. If they are valid, in a greater or lesser degree, the problem then arises; can something be done about it? I shall therefore make suggestions.

Our first problem is that of the prejudice against numbers. This in my view is not a case where the accountant need apologise. As I have already said – and as I shall emphasise in my other talk at this conference – the importance of numbers in the life of men, women and children increases daily and there is no reason to suppose that it will decrease in the future. Furthermore, to those who have become used to these most interesting abstractions, numbers are a fascinating field of study.

If there is no need to apologise, nevertheless there may be a need to prescribe. What can be done to reduce this fear of figures? This, of course, is in part a problem that solves itself as a student gains competence. As he acquires a skill in the manipulation of our delightful techniques, he became increasingly confident and is able to enjoy his skill. There is undoubtedly something of the craftsman's joy, if not of the scientist's ecstasy, to be distilled from the contemplation of a set of accounts which indeed add up correctly on both sides. This well-drawn balance sheet that balances is a thing of beauty in itself.

I believe, however, that there are other possibilities although they are not perhaps open to every person. These lie essentially in understanding more about the meaning of figures to the mathematician himself. Here perhaps I am addressing myself more to the teachers themselves than to the students through those teachers. There are not many students who will be ready or able to spare time on learning something about the meaning of numbers, but the occasional man will come along who can benefit and I should like to consider ways in which this could be achieved. I think it may lie in the study of elementary introductions to the foundations of mathematics. I have in mind such books as Whitehead's *An Introduction to Mathematics* (1911) and Russell's *Introduction to Mathematical Philosophy* (1919). These may indeed sound formidable to many of you and I am sure that many students would find them so. Nevertheless, to a keen man there is much of great interest in them and they have this great merit that they do not require any detailed knowledge of mathematical methods at all. Most of what they have to say is available to the man who can add up and subtract, multiply and divide. Russell's book is particularly valuable for it is closely related to his work on the foundations of logic and therefore not only has a very close connection with some of the most important work in pure thought that has been done in this country in the last two hundred years, but is linked to the new interesting and developing field of computers, which represent in a certain sense an application of logical methods to practical calculation. Moreover, these two books are written by men whose minds are of high quality – of the highest – and it is all to the good that every man who can should come into contact with them through the printed word.

The study of a book like Russell's *Introduction to Mathematical Philosophy* (1919) cannot fail to leave one with heightened powers of reasoning and analysis even if one does not understand it all.

You may say to yourself: 'what has this to do with accounting?' Mathematics is really very little related to our study. The accountant needs a little arithmetic – he must be able to add and subtract and preferably multiply and divide, but that is where the matter ends. This in my view would be a mistake. It is perfectly true, I agree, that accountants as such have little need of the advanced techniques of mathematics. In my view, however, there is no doubt that accounting is in essence a *language*. We are recording certain facts of business life in a certain way so that they may tell a certain story. Unless the story is interpreted and use is made of the result our effort is wholly wasted. We are therefore concerned with a special kind of language. Now mathematics is also a special kind of language. It is an extension of ordinary English or French or German or Russian, or what you will, into fields where greater precision and various other qualities which are absent in ordinary language are needed. It is in examining this need for precision that mathematical philosophers have done great service to precision in the use of ordinary language. I am here speaking particularly of Russell. It is therefore very appropriate that accountants, who have a language of their own, should be interested in the efforts of other people to make clearer the message which languages can convey.

However, I am well aware that it is perhaps a counsel of perfection to recommend such books to some students and I think we must consider other ways of interesting men and women in mathematics. It is here that the increasing importance of the digital computer – the so-called electronic brain – will be of value, for its commercial applications are not clearly distinguished from its mathematical applications and there is no doubt that mathematical knowledge will be of great value in using it even when the uses are not those requiring high level of mathematical sophistication. I shall have more to say about this in my second talk.

I must now pass on to the second of our problems. Accounting is to a large extent concerned with the rather sordid business of making money. This kind of reproach rises in part from a failure to comprehend the nature of our economic system. I think it would be fair to say that a good training in economics is one of the best ways of removing this kind of prejudice. However, many accounting students will not unfortunately have the benefit of a good training in economics. This need not, I think, worry us, for economics can be learnt in more than one way. I am going to suggest how some of the economic facts of life can be presented to students in a way that may I hope to remove some of this prejudice and indeed do something to instil in some of them a heightened interest in the field of knowledge with which we are concerned.

It is a simple matter to point out to a student, or indeed to any other critic, that the aspect of accounting which is concerned with the profitability of profit-making undertakings is equally relevant to avoiding waste in non-profit-making institutions. The economist indeed would point out that profit is after all the nature of an economic gauge, the purpose of which is to point out in which direction the community's resources are, under certain given circumstances, likely to be used to the greatest advantage. This is unfortunately a highly sophisticated argument in which there are many pitfalls, for the gauge itself does not always work perfectly, and the conditions for its satisfactory working are not always present. It is easy enough, however, for any student to see that it is important to avoid the wasteful use of resources that could be used to bring greater welfare to human beings. If it is pointed out to them that accounting is to a very large extent concerned with this very problem and indeed that the whole apparatus of modern industry with all the benefits which it can bring to mankind would possibly be impossible without the use of accounting, his interest in the subject may be heightened. It is, of course, very essential that when he is told this the statement should be followed up at some stage – not too far distant – by a demonstration showing how accounting methods, documents and reports can indeed help in this way. It is, of course, useless to tell the students all kinds of highfaluting stories without demonstrating that these are in fact not without foundation. However, these are matters of which you are well aware, and I will not pursue this point any further.

The use of accounting as a mechanism of control in business, and indeed in any administrative situation, is then a stimulating peg upon which some of the teaching can be hung. No young man worthy of his salt can fail, I believe, to be stimulated by the kind of feats achieved by modern industry in the transformation of the raw materials of our world into things that we all need. It should excite and interest them to feel that the accountant has such an important part to play

in this work. One must, I think, in this context lay emphasis on his function as a co-ordinator in business administration. This, of course, is where the study of budgeting links up with the ordinary study of accounting.

Students who are interested in the apparatus of State control, who can be shown how unimportant a part accounting plays in this, have other reason for finding the subject interesting. This is a field where accounting and law touch, and students may not always realise how great a part accounting measurement plays in much modern legislation that affects the economic process. The function of accounting in enabling our elaborate system of income taxation to be carried on hardly needs understanding. As we consider the problem of monopoly legislation, we find that the measurement of the rate of return upon capital employed is one of the concepts with which the legislators and the administrators of legislation are concerned. Here again the accountant plays a central part. It may not be amiss to point out that the very financial planning of the nation itself depends these days upon an elaborate system of social accounting which, in essence, is based upon a consolidation of the accounts of all the individual transactions in our economy. I imagine that social and national income accounting cannot play a very great part in the courses which many of you are concerned with. Nevertheless, it is obviously of great importance that the students should know of its existence. It may interest them to know how important it has become. Or again, the relationship between the budget of the Chancellor of the Exchequer, and the results with which this budget is later compared, can also be compared with the budgets of the firm and the usual accounting control which is applied to these.

The part played by accounting in the capital market cannot be under-emphasised. In teaching students about the requirements of company legislation, so far as it affects accountants, it is relevant to point out its importance in improving the knowledge of companies and thereby making more likely the possibility that funds to be invested will move in the direction that – at any rate so far as past results are able to show – most deserve them. Here we can draw a parallel between the accounts presented to the shareholder by his directors and the accounts presented by the subordinates inside the firm to those directors. Both are presented for purposes of control and no doubt both in some degree will be used for comparing the actual results with what had been hoped for. The discussion of financial budgeting – which of course is closely interwoven with the discussion of financial accounts – offers great possibilities for the stimulation of the imagination. All the great industrial and public projects which we see throughout the world today must be based upon careful financial budgeting. Here, as in the case of the rest of management accounting, we can show the student how closely the work of the accountant is connected with the stimulating and fascinating work of the engineer, the chemist, the physicist and so on.

It is indeed up to those of us who teach accounting to try and make the figures come alive. I must admit that, when I search my own conscience, I have not had this sufficiently in mind at all times. This perhaps is partly because the stimulation which one can obtain from well-performed technique – the achievement one can feel in double-entry work – in some degree conflicts with the pleasure

one can get in contemplating the relationship between figures themselves and the outside world. If one is a good technician, one is interested in the figures for their own sake. Let the outside world go hang one may say. This is undoubtedly not without its benefits for it does encourage an atmosphere of good careful work. Nevertheless, it is also not without its dangers, for the man who is a good technician but cannot apply the results of his technique cannot reach the greatest heights. On the whole, I think accountants are offenders in the direction of excessive concentration upon techniques. Some of them, I am afraid, are less concerned with the possible absurdity of the figures in the balance sheet than with the question of whether it balances or not. It is therefore very important, I believe, to try to maintain this contact between the figures and the real world. The fault where it is found is not of course peculiar to accounting. It is a fault found in some degree in all professional work. Nevertheless, I think that accountants have perhaps been rather more prone to this than some professions.

On general educational grounds, one cannot over-emphasise the importance of trying to relate any particular piece of work with the whole of experience of the man concerned. I remember, if I may tell a personal story, being asked some years ago to analyse the accounts of a particular company which was producing aluminium. This in itself may sound a fairly routine job. One knows the kind of calculations one makes. One lines up the accounts for a series of years and looks at the trends in the different figures. One calculates balance sheet ratios perhaps and comments on the liquidity situation. To me, however, it has much more than a mere series of calculations. I was interested in the chemistry of the aluminium industry. I was interested in the country – outside England – in which this company was operating. I was interested in the link between the accounts and what was actually going on. All these things added to my pleasure in doing a job of work, whether it was done well, I cannot say. Nevertheless, I enjoyed doing it as all people who are working should enjoy their work if only it could be made possible. There is I think a lesson here for teachers.

I have not up to now spoken about the history of accounting. It is not everybody who is interested in the historical aspects of their subject and much history is unfortunately badly written and therefore dull and uninteresting. Good history nevertheless can provide as great an interest and a stimulation as anything else. Good history is by definition well written and relates the story of the subject with which it is concerned with other aspects of life in the past. This is another example of what I have just been saying about the importance of relating a given subject with the rest of experience. There is not unfortunately a great deal written about the history of accounting, but there have appeared recently some collections of essays on various accounting topics some of which have been concerned with history. Indeed, one of these collections, *Studies in the History of Accounting* (1956), edited by my colleague Mr Yamey and Mr Littleton, a very well-known American accountant, is devoted entirely to the history of the subject. Some students perhaps may not find these particularly interesting. I do not think that it is necessarily even a good thing to include their study as an essential part of the curriculum, although this may sometimes be desirable. I do, however, think it most desirable that the attention of students should be drawn to these works since

some men will enjoy them and benefit from reading them. Many of you will no doubt have read or browsed in the collection of which I have spoken. For those of you who have not, I would suggest that it may be worthwhile glancing through them. I have found myself that, when one is lecturing, it is often a great help if one can quote reasons for carrying out certain types of operations in accounting which are explicable essentially in historic terms. There are, for example, all kinds of queer bits in the Companies Act so far as this relates to the work of the accountant, the meaning of which do not attain their full significance until one has studied the history of company accounts from the time when companies as we know them first began in 1844.

Again, the manipulations of double-entry bookkeeping may sometimes be easier for students who have studied some of the earlier writings on the subject. An example which occurs to me is that of bills of exchange. I do not know how many of you now include in your curriculum accounting for bills of exchange. I cannot help thinking that perhaps this topic has been over-emphasised in the textbooks in view of the extremely small part which these documents now play in inland trade in this country. Nevertheless, I think it would be wrong to leave them out altogether. An understanding of the method of handling bills is really essential if one is to fully understand the nature of banking. The student of economics, for example, who has not studied accounting at all, will certainly be at a disadvantage when he is learning about banking and money problems, as compared with someone who is familiar with double-entry bookkeeping.

I would say here in parenthesis that, in my view, it is wrong that people should be entitled to call themselves qualified economists and yet be completely ignorant of the elementary principles of double-entry bookkeeping. Accounting is after all the business man's language. The economist's claim is to study business. It is queer that he should attempt to do so without first learning to speak the language of that subject. As a matter of fact, the understanding of bills of exchange is not the only point where accounting can help the economist. The principles and general nature of national income accounting, which I have already mentioned, will at the very lowest be understood more quickly by someone who has an accounting background. The nature of the monetary system as a whole, including the operations of the Bank of England and other central government authorities in the capital market, will be much more readily understood by the people who have some formal training in accounting. However, I have really moved outside my present topic of history here and we must now return to this.

I started by mentioning bills of exchange. One of the ways in which one can get a good idea of the accounting problems, and see how the whole thing fits together, is by studying the way in which, in some communities in the past, it has been necessary to arrange for settlement of debts by asking one's debtor to set off one's account in his books against the account of one of his debtors to whom one owes money oneself. This is the kind of situation which can arise in the fairly primitive community where there is very little money available. Anyone who is interested will find a most fascinating account of this kind of situation in a book by Professor W. T. Baxter called *The House of Hancock* (1945), published by

Harvard University Press. It is unfortunately out of print now, but it is probably available in many libraries.

One can, however, go a good deal further back in history. At this point I shall mount upon one of my favourite hobby horses. There is some reason for believing that not only is accounting extremely ancient but even that it is accounting, or rather the need for accounting, which gave rise to the invention of writing itself. It seems certain at any rate that the earliest written documents in the world – they are clay tablets some 5,000–6,000 years old of the Mesopotamia river valleys – are in fact accounting records. The ancient writings of Crete, so far as they have survived, seem also to be documents of this kind. Those of you who have read Woolley's interesting book, *The Sumerians* (1923), will remember that in the ancient city of Ur, some 4,000–5,000 years ago, there was a fairly elaborate system of accounting in connection with the business carried on by the local temple. The accounts of the god, which again were on clay tablets, included such elaborations as records of the issue of textiles to the women operatives, with agreed allowances or tolerances for wastage. We find also records of the receipt of presents to the god, and if one wished to make a sacrifice from among the cattle that had been paid in to the treasure house of the god, it seems that one made out an appropriate issue voucher. Pointing to the antiquity of accounting, by the way, is a useful way of silencing one's sharp-tongued colleagues.

This brings me to the third reason which I have suggested may account for the position of accounting as a depressed subject in the eyes of certain people. This is the suggestion that accounting in itself has really so little content that it is hardly worthy to be called a subject as such. Now I must admit that in a certain sense I cannot entirely disagree with this sentiment. By this I mean that if by accounting one means only the application of the ordinary rules of double-entry bookkeeping, the preparation of the standard kind of statement, which one finds discussed in the ordinary accounting textbooks, and the preparation of simple cost records, then the subject is indeed pretty thin. It is undoubtedly still worth teaching, but there are not really a great number of problems to discuss once one has learnt the techniques. A subject without many problems is not a very interesting one.

To me, however, accounting is very much wider than this. Personally, I regard it essentially as a branch of applied economics. I am not particularly concerned with names, however, and anyone who wishes to quarrel with the word 'economics' is perfectly entitled to find another name. I certainly do not want to imply that all accountants are very greatly concerned with the more refined theory spinning which one finds in the theoretical economic books. What I do mean, however, is that accounting is very much concerned with the practical and day-to-day problems of administrative processes, whether these be in business or public affairs or even in domestic economy. This being so, accounting is very much concerned with questions of choosing between the alternative uses of resources, sometimes in very complicated circumstances. It is, I think, of the essence of the subject that it cannot be properly studied unless the problems of the persons and organisations whom it serves are themselves studied. Accounting is so to speak the applied mathematics of business. One must ask oneself what the business problems are and then one must say how the accountant can best help. Our measurement

techniques spread, of course, into the field of law. In the widest sense, law itself is part of that subject, and it is evident that the good accountant must interest himself to a very large extent in some of the more difficult economics and legal problems connected with the measurement of value. I am thinking, for example, of income tax, the valuation of estates on the death of the owners, the calculation of rates of return on investment in connection with monopoly investigations and so on, that I have already mentioned. An accountant in the wider sense, therefore, can perhaps be described as a cross between a statistician, a lawyer and an economist, or, if you prefer the term, an administrator.

You will, I think, readily admit that there are many unsolved problems in the fields which I have mentioned. Anyone who wishes to do research has ample opportunity. This is one of the marks of a live and developing subject. I conclude that accounting is indeed such a subject. Probably, one need not spend a great deal of time pointing this out to one's students, for they are on the whole not inclined to wonder whether a particular subject is or is not a good one to study. They have chosen to follow it, and they want to do their best in it. I think it is useful, however, to keep this at the back of one's own mind. One can repeat it to one's colleagues. And one can bring it out when one is talking to one's better students.

I have now come to the end of my talk. You may feel perhaps that it is rather a shorter one than you expected. My answer to this is in two parts. In the first place, I was given no particular length. I was merely informed of the total time available for the talk and for discussion. My second reason is perhaps a better one. I do not like listening to long lectures myself. I do not see why you should be subjected to one. Thank you.

## NOTES

\* Editor: Edey's handwritten notes on the cover of this unpublished speech states that it was delivered to 'college teachers' of accounting in the late 1950s. It is likely that this is a reference to the Association of University Teachers of Accounting, which was established in 1947 and is the predecessor to the present-day British Accounting and Finance Association (for more about this organisation, see Maunders, 1997; Parker, 1997; Zeff, 1997). Edey became a member of this organisation in 1960, serving as an occasional Chairman and as a member of the Superannuation Committee for three years. He became an honorary member in 1980 and was awarded the Life-time Achievement Award in 2003 (for more about these events, see Appendix 1). The speech is concerned with the perception among students, and colleagues from neighbouring disciplines, that accounting is a dull and technical subject of little interest and depth (for more about the historical context at the London School of Economics [LSE], see Napier, 2011, 2018; Persson & Fafatas, 2018). Edey speculates as to the reasons behind this perception, and he also offers several suggestions for how teachers can go about addressing the situation.

1. Editor: Edey's handwritten note reads: 'or perhaps I should say big brother'.