

**THE HISTORY OF ACCOUNTING STANDARDS
IN NEW ZEALAND: AN EVALUATION OF THE
ROLE OF THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF NEW ZEALAND**

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Abstract

Professions are characterised by the services they provide and in accounting this includes standard setting. The accounting profession became increasingly involved in the regulation of external financial reporting during the twentieth century by setting standards of accounting practice for its members and entity stakeholders. This narrative analysis of the history of accounting standards in New Zealand focuses on why the accounting profession in New Zealand, as elsewhere in the English-speaking world, assumed the responsibility to draft accounting standards. It argues that accountants did so to maintain their professional status.

The New Zealand Institute of Chartered Accountants was instrumental in creating accounting standards in New Zealand. Cautious to begin with, the Institute soon became a progressive and innovative standard setter, not only developing a conceptual framework for New Zealand standards but also making the standards sector neutral. The Institute retained control of the drafting of accounting standards even when, as happened in the latter decades of the twentieth century, the New Zealand Government became more involved in the standard setting process. Recent changes in the standard setting process, however, such as the development and use of international accounting standards and the creation of statutory bodies to draft and authorise standards raise questions about the accounting profession's continuing use of standard setting as a mechanism for maintaining professional reputation.

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Glossary and Abbreviations

General

CCA	Current Cost Accounting
CPP	Current Purchasing Power

New Zealand

APPC	Accounting Practice and Procedures Committee
ARSB	Accounting Research and Standards Board
ASRB	Accounting Standards Review Board
BRAP	Board of Research and Publications
ED	Exposure Draft
EP	Exposure Draft Public Sector Standard
FAC	Financial Accounting Subcommittee
FRS	Financial Reporting Standard
FRSB	Financial Reporting Standards Board
GAAP	Generally Accepted Accounting Practice ¹
GU	Guideline
IAS	International Accounting Standard
ICANZ	NZICA/ New Zealand Institute of Chartered Accountants
IFRS	International Financial Reporting Standard ²
IPSAS	International Public Sector Accounting Standards
Listed issuers	parties to a listing agreement with a Stock Exchange in New Zealand that have issued securities quoted on the Exchange
NZICA	New Zealand Institute of Chartered Accountants
NZ IFRS	NZ equivalents to IFRS ³
NZSA	New Zealand Society of Accountants
PBE	Public Benefit Entity ⁴
PS	Public Sector
RB	Research Bulletin
SME	Small and Medium Sized Entities
SPSAC	Statement of Public Sector Accounting Concepts
SPSAS	Statement of Public Sector Accounting Standard
SSAP	Statement of Standard Accounting Practice
TPA	Technical Practice Aid
TSAP	Tentative Statement of Accounting Practice

United States

AAA	American Accounting Association
AIA	American Institute of Accountants

¹ Approved financial reporting standards so far as they apply; otherwise rules applied should be appropriate to the circumstances and have authoritative support within the New Zealand accounting profession. Source: *Financial Reporting Act 1993, Section 24*.

² Comprise IAS, issued by IASC and adopted by IASB; interpretations of IAS, issued by the former Standards Interpretations Committee; IFRS, issued by the IASB; interpretations of IFRS, issued by the International Financial Reporting Interpretations Committee.

³ New Zealand standards on topics not addressed by IASB or versions of international accounting standards.

⁴ Reporting entity whose main objective is to provide goods and services for community or social benefit.

AICPA	American Institute of Certified Public Accountants
APB	Accounting Principles Board
ARB	Accounting Research Board
CAP	Committee on Accounting Procedure
FAF	Financial Accounting Foundation
FASB	Financial Accounting Standards Board
GASB	Governmental Accounting Standards Board

United Kingdom

ASSC	Accounting Standards Steering Committee
ICAEW	Institute of Chartered Accountants of England and Wales
SIAA	Society of Incorporated Accountants and Auditors

Australia

AARF	Australian Accountancy Research Foundation
ASA	Australian Society of Accountants
ASCPA	Australian Society of Certified Practising Accountants
ICAA	Institute of Chartered Accountants in Australia
PSASB	Public Sector Accounting Standards Board

Canada

CICA	Canadian Institute of Chartered Accountants
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International

IASC	International Accounting Standards Committee
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
INTOSAI	International Organization of Supreme Audit Institutions
IOSCO	International Organization of Securities Commissions
IPSASB	International Public Sector Accounting Standards Board

Introduction

...the Institute always took on a significant responsibility to promote the standards and quality of financial reporting. One could argue that the job is really for a government body in the sense that [while] there are obvious payoffs to the profession, promoting the standing of the profession, there are also benefits [of the standards] that go well beyond the profession and one could therefore argue that, just as with education, there is a role for government.¹

...probably all the way through there have been people who have been saying, why do we need accounting standards and why is the Institute paying for the development of accounting standards?²

These extracts from T. van Zijl's and J. Perry's interviews raise points that produced the research questions for this thesis. If there is a case for the state to be the setter of accounting standards, why was the accounting profession in New Zealand the standard setter for the past seventy years? How did the accounting profession set accounting standards in those years and were the standards effective?

Van Zijl's argument is pertinent because 2011 will be a milestone year in the history of accounting standard setting in New Zealand as the New Zealand Institute of Chartered Accountants (Institute) relinquishes the responsibility of drafting New Zealand accounting standards.³ Today, New Zealand accounting standards are international accounting standards, no longer drafted by the Institute but by international standard setting bodies and authorised by the New Zealand Government. The New Zealand accounting profession ceased having a direct involvement in regulating external financial reports. This is a significant change for the accounting profession because, since the 1940s, when the Institute first introduced guidelines for preparers of external financial reports, the profession, through the Institute, has been the sole producer of accounting standards in this country. Why has the accounting profession given up this responsibility? Then again, why did the profession back in the 1940s agree to regulate external financial reports? How did the Institute draft and issue standards in New Zealand from the 1940s to today? This thesis explores these questions by evaluating the role of the New Zealand Institute in the history of accounting standards in New Zealand.

¹ T. van Zijl interview 16 July 2009.

² J. Perry interview 18 September 2009.

³ From 1908 until 1995, the New Zealand Institute of Chartered Accountants was known as the New Zealand Society of Accountants. In this thesis, the Institute is referred to as the 'NZSA', the 'Society', the 'Institute', the 'New Zealand Institute' or 'ICANZ'

Research questions

I became interested in the accounting profession and its role as the setter of accounting standards when doing my Masters degree on women in the New Zealand Institute. I already knew that accountants were auditors and that they monitored and commented on the external financial reports entities released at regular intervals. I did not know that accountants wrote the standards used in preparing these reports. However, I did know that when entities collapsed and people lost their investments the media was usually critical about the quality of the financial information found in the reports, often claiming that this information was misleading and responsible for people making poor investment choices. This criticism was particularly evident following the 1987 share market crash in New Zealand.⁴ Thus, the public identified the accounting profession with the business community. When entities failed the accounting profession was often held partly to blame. Why should the public hold the accounting profession responsible for the reliability of external financial reports?

I was curious to find out how the accounting profession became the setter of accounting standards and what motivated the profession to do so when it was vulnerable to criticism of its efforts, especially when, as van Zijl noted, an argument could be put forward for a government body to set standards. If there were standards which entities were supposed to be using when preparing external financial reports, how could these reports be misleading? Who was responsible for ensuring that entities used the standards? Why should the public blame the accounting profession for investment losses? The public does not know, and does not want to know, the details of accounting standards and how they are applied. All the public is interested in is that there are standards ensuring that external financial reports give an accurate view of entity activities: a true and fair view. Why then did the accounting become a standard setter when, as Perry observed, not all in the profession agreed? How has the role as setter of accounting standards affected the accounting profession's relationship with other groups in society, particularly the state and business entities?

To answer these questions I decided to examine how New Zealand accountants went about standard setting. To do so, I needed to investigate the standard setting boards, which meant that I found myself exploring the role of the New Zealand Institute of Chartered Accountants in standard setting, which was the official standard

⁴ R. Nelson and C. James, 'Behind closed doors: New Zealand investigates Private Share,' *Far Eastern Economic Review*, 139:9 (1988), p.66.

setter in New Zealand. As I researched I began to see that there appeared to be a link between standard setting and the professional status of accountants in New Zealand. Thus, research on the history of accounting standards in New Zealand expanded to become a study of an aspect of the behaviour of professions. Was there a connection between professionalisation and professional behaviour, and how significant were activities such as standard setting in maintaining accounting's professional status? These questions produced the hypothesis for this thesis, that standard setting was a professional project of the accounting profession.

Professionalisation is a large area to study, as is standard setting. In order to remain manageable, this thesis focuses on an examination of one professional activity, the setting of accounting standards, and in one country, New Zealand. Accounting standards are also not the only rules the accounting profession has developed in the past few decades. Other regulations include auditing standards and assurance standards. Assessing the development of these standards is beyond the scope of this thesis, which focuses on accounting standards only and in particular on the development of accounting standard setting rather than the nature of the regulations themselves.

Throughout this thesis reference is made only to 'accounting'. The term 'accountancy' is not used. Properly speaking, accounting is 'the setting up, maintaining and analysing of financial records' and the term is also used to describe the academic discipline. Accountancy is 'the office, work or profession of an accountant.'⁵ However, accounting is the term more usually used in the literature, so in this thesis 'accounting' is used to mean both 'accounting' as actual accounting work and 'accountancy' as the profession. There are numerous acronyms applicable to accounting standards, not least the many boards and committees associated with standard setting in New Zealand and elsewhere in addition to the many professional accounting associations around the world. Those associations, boards, committees and standards referred to in this thesis are listed in the glossary.

There is much literature on the accounting profession. An excellent example is Edwards and Walker's recently published comprehensive guide to accounting history that incorporates summaries of several aspects of the profession.⁶ There are many

⁵ *The Chambers Dictionary* 10th edition, p.9.

⁶ J.R. Edwards and S.P. Walker (eds.), *The Routledge Companion to Accounting History*, (London and New York, 2009).

studies focussing on theories concerning the profession but fewer studies using empirical evidence to examine those theories. West, for example, identified a need for empirical evidence from case studies of accounting professional activity, as did Gaffikin.⁷ West was concerned about the reliance researchers place on theoretical explanations of professional activities. He saw them exploring these actions through speculation rather than evidence. Poullaos also saw ‘large gaps in [studies of] the temporal mid-range between the historical emergence and the present state of accountancy projects.’⁸ This thesis is a response to these calls and aims to provide empirical evidence to test if standard setting is an example of professional behaviour.

When I began this research I found that little has been written on general histories of accounting standard setting, that is, histories that take a broad approach and cover the development of standard setting in one country from its origins to the present day. A notable exception is the work of Zeff who, during the 1970s, produced a number of books that gave brief but clear histories of standard setting in several countries, including New Zealand.⁹ More usually, historical studies of the evolution of standard setting focus on the standard setting bodies established either by accounting associations or the state. Thus, researchers have examined the histories of specific standard setting bodies, such as Storey and Storey’s study of the Financial Accounting Standards Board in the United States and, more recently, Rutherford’s history of the United Kingdom’s Accounting Standards Committee and Street’s work on the International Accounting Standards Committee.¹⁰ There is a need for more studies of accounting associations and their contribution to, and relationships with, the societies in which they are found. In this way the workings of modern societies and the possible future paths they will take may be better anticipated. Some researchers have recognised this gap in the knowledge of professional activities. Poullaos, in his summary of the stages of professionalisation of accounting, noted ‘[there is] a huge

⁷ B.P. West, *Professionalism and Accounting Rules*, (London and New York, 2003), p.9.; M.J.R. Gaffikin, *Accounting Theory: research, regulation and accounting practice*, (Frenchs Forest, New South Wales, 2008).

⁸ C. Poullaos, ‘Professionalisation,’ in *The Routledge Companion to Accounting History*, J.R. Edwards and S.P. Walker (eds), (London and New York, 2009), p.266.

⁹ S.A. Zeff, *Forging Accounting Principles in Five Countries*, (London, 1972), *Forging Accounting Principles in Australia*, (Melbourne, 1973) and *Forging Accounting Principles in New Zealand*, (Wellington, 1979).

¹⁰ R.K. Storey and S. Storey, *The Framework of Financial Accounting Concepts and Standards*, (Norwalk, Connecticut, 1998); B.A. Rutherford, *Financial Reporting in the UK: a history of the Accounting Standards Committee 1969-1990*, (London and New York, 2007); D.L. Street, *Inside G4+1: The working group’s role in the evolution of the International Accounting Standard setting process*, (London, 2005); Rutherford (2007).

literature on standard-setting but...little in-depth examination of how the emergence of regulatory space has changed the course of professional projects and vice versa.’¹¹

Our societies today are more regulatory than in the past, as Baldwin *et al.* observed.¹² Regulations are found in all aspects of life, political, economic and social. Citizens are aware of their rights as individuals but often prefer to leave responsibilities to others. The media for example, convey continual demands for accountability and authorities respond with more regulations. In such an environment studies of the state and regulatory groups are important for further understanding of society and its governance structure.¹³ Although focused on the accounting profession and its professionalisation process, this thesis aims to contribute to this understanding for standard setting is part of the regulatory regime. A study such as this, examining the pressures on the accounting profession as standard setter and the relationship of the profession with other groups such as the state, is part of a trend in regulatory studies that Scott saw emphasised institutional relationships in regulatory regimes and that Baldwin *et al.* noted stressed institutional motivations.¹⁴

As with Zeff’s 1979 study, this thesis focuses on the broader history of standard setting in New Zealand, looking at how the New Zealand Institute began developing accounting standards in New Zealand and the factors, internal and external, national and international, that influenced this development. However, this thesis goes further than Zeff in considering and providing new ways of thinking about how professions act in society, thus adding to the knowledge of the nature of professional groups and their interactions with other groups in the economy, including the state.

Although this thesis confines itself to New Zealand, standard setting has a strong international dimension. Accounting standards are a part of economic activity in all countries and the standards used in New Zealand are the same or similar to those used elsewhere. This is especially so with increasing globalisation and international trade. Because this thesis explores the history of accounting standards in New Zealand, that history is compared with the history of accounting standards in those countries that have most influenced New Zealand. The British Imperial origins of the

¹¹ C. Poullaos (2009), p.266.

¹² R. Baldwin, M. Cave and M. Lodge, ‘Introduction: Regulation- The Field and the Developing Agenda,’ in Baldwin *et al.* (Oxford, 2010), p.6.

¹³ C. Scott, ‘Standard-Setting in Regulatory Regimes,’ in Baldwin *et al.* (Oxford, 2010), p.117.

¹⁴ Scott (2010), p.117; Baldwin *et al.* (2010), p.11.

European settlement of New Zealand greatly influenced the creation and working of the New Zealand accounting profession.¹⁵ Therefore this thesis also studies aspects of standard setting in the United Kingdom, the United States and Australia that affected standard setting in New Zealand. Other countries of British origin such as Canada and South Africa have had less influence on accounting standards in New Zealand and hence there is less comparison made in this thesis with these countries. The scope of the thesis for the most part is limited to comparing New Zealand standard setting with that of Australia and the United Kingdom.

If the New Zealand history of standard setting has much in common with the history of standard setting in many other countries, then why study New Zealand when researchers have produced histories of standard setting in other countries?¹⁶ One reason is that the New Zealand history allows for a relatively simple case study to examine the evolution of accounting standards. The New Zealand accounting profession has had only one association involved in standard setting, unlike most other countries where the history of standard setting incorporates a history of accounting associations learning to cooperate and relate to each other as they dealt with issues of standard setting. At the same time, because of the small size of New Zealand, fewer individuals have been involved in standard setting, allowing a focus on the process of standard setting instead of the dynamics of intraprofessional relationships.

Another advantage of examining the history of standard setting in New Zealand is that such a history provides information about the pressures and influences on standard setting elsewhere, making it possible to compare and explain the link between this country and other countries, especially Australia and the United Kingdom. A history of standard setting in New Zealand not only covers what New Zealand has in common with other countries but also where New Zealand varies from other countries. A notable example is the period during the 1990s and 2000s when external financial reporting in New Zealand was regulated by sector neutral standards. This brief period of radical change in standard setting, along with the development of

¹⁵ W.F. Chua and C. Poullaos, 'The Empire Strikes Back? An Exploration of Centre-Periphery Interaction between the ICAEW and Accounting Associations in the Self-Governing of Australia, Canada and South Africa, 1880-1907,' *Accounting, Organizations and Society* 27:4/5 (2002), pp.409-445

¹⁶ For example, S.A. Zeff, 'How the US profession got where it is today: part 1,' *Accounting Horizons*, 17:3 (2003), pp.189-205; , 'How the US profession got where it is today: part 11,' *Accounting Horizons*, 17:4 (2003), pp.267-286.

individual standards like SSAP-17 Accounting for Investment Properties by Property Investment Companies, makes New Zealand different from other countries and the topic of standard setting in New Zealand worthy of study.

A further reason to study standard setting, whether in New Zealand or elsewhere, is to prove whether standard setting is a professional activity. When demand grew for better quality external financial statements in the first few decades of the twentieth century, preparers, users and other interested groups, such as the state, turned to accountants as the logical drafters of standards for they had the necessary skills and knowledge. Accountants therefore were acting in the interest of the public when setting accounting standards because they ensured that relevant and valuable financial guidance for external financial statements was widely available. As van Zijl observed, the public indeed benefited since these measures promoted general economic welfare, but so also did the accounting profession, for external financial reporting has a high economic and social profile. The profession took its responsibilities as standard setter seriously. This may be seen in the preface to New Zealand Institute publications of accounting standards, which also highlights the relationship between the accounting profession and New Zealand society.

The objective of the FRSB (Financial Reporting Standards Board), a national board of the Institute of Chartered Accountants of New Zealand...is to develop and maintain definitive standards and other guidance on all aspects of financial reporting. The FRSB aims to continually improve the quality of general purpose financial statements and non-financial statements in New Zealand so that users of those statements are provided with information which enables them to

- (a) assess the performance, financial position and cash flows of the entity
- (b) assess the entity's compliance with legislation, regulation....
- (c) make decisions about providing resources to, or doing business with, the entity.

This will assist in maintaining and improving the efficiency of New Zealand capital markets and improving the accountability of profit-oriented and public benefit entities.¹⁷

Providing guidance in preparing the statements and improving their quality and relevance enhanced accounting's professional reputation.

Professional reputation is fragile, hard to earn and easily lost. Clients and the wider community demand competent accounting services delivered with integrity. They trust a professional accountant to act ethically and remain independent when giving advice and guidance. Earlier this century the financial collapse of Enron and other American entities irreparably damaged the reputation of accounting

¹⁷ *Applicable Financial Reporting Standards: NZ equivalents to international financial reporting standards*, (Wellington, Institute of Chartered Accountants of New Zealand, 2004), p.4.

professionals who were providing these entities with financial services and affirming the reliability of those entities' external financial reports. Arthur Andersen was the professional accounting firm destroyed in the collapse. In a few months the firm went from being a Big Five international accounting firm with thousands of employees to an entity that no longer existed. As the standard setter the accounting profession is closely linked to the validity of entity external financial statements. When the accuracy of external financial statements is called into question, as happens during entity collapses, accountants are often considered part of the problem.

If providing guidance for external financial reporting has such a high profile in the economy and the reputation of the accounting profession is so firmly linked to the quality of entity financial reporting, then there may be a link between standard setting and the professionalisation of accounting. Professionalisation is a broad process. An occupation may take several paths to become a profession and the methods employed alter as circumstances change. Larson proposed a model to explain the professionalisation process, suggesting that professionalisation occurs where those in an occupation carry out 'professional projects.' In the model, the projects exhibit particular characteristics, where professional organisations used legislation and regulation to restrict access to carrying out the work in specific economic fields, controlling the knowledge required for that work and maintaining that control.¹⁸

Larson's model therefore claims there is a significant link between how professions maintain control of services and their success as professional occupations. The model also highlights the importance of the relationship between a profession and other groups in society for professionalisation to be successful, and professional occupations to succeed. Professions are an influential sector in the economies of western countries and play a prominent role in many aspects of modern society. Their actions have political, social and economic implications. Yet, as West noted, 'despite the apparent importance of the issue, few studies in the sociology of professions literature have grappled with the question of whether or not professional authority has functioned as an effective mediating device with those domains in which it is relied.'¹⁹ There are some studies. Macdonald, for example, explored accounting's use of professional authority within the framework of Larson's model of professional

¹⁸ M.S. Larson, *The Rise of Professionalism: a sociological analysis*, (Berkeley, 1977).

¹⁹ West (2003), p.34.

projects, linking the profession's dominance in auditing to its relationship with other groups.²⁰

This thesis continues this research, providing a structured approach to the issue of professional activities and professionalisation to a greater extent than has occurred to date by debating the link between the professionalisation of accounting and the role of accountants in standard setting. The findings in this thesis will therefore enable further understanding of how professions act and react in their societies when providing professional services. In particular this thesis provides empirical evidence of the efforts of one profession to control one service and discusses the profession's motives for doing so and its changing relationship with the state to monopolise delivery of that service. In this respect this thesis adds to the knowledge of the nature of professional groups and how they relate to other groups. This broadens the usefulness of this thesis, for studies of professions cover many fields and disciplines, from sociology to history, and many topics, from issues in the medical profession to matters of contention for teachers in tertiary education. Thus this thesis may provide useful information in a wide variety of research areas as it augments work done elsewhere, such as Seneviratne's work on regulation and the legal profession in the United Kingdom.²¹

There is some New Zealand literature on the Institute and its role in standard setting. Some researchers, such as Keenan, have studied particular events or aspects of standard setting in New Zealand and Graham and Millen touched on standard setting in their general histories of the Institute.²² Only Zeff has written about the role of the Institute in standard setting and given the limited time and other resources he had available he considers his study an introduction to the topic.²³ Zeff's book was the inspiration for this thesis which continues his work from an historical rather than an accounting perspective. The history of the New Zealand Institute's dominance in standard setting is examined as a case study that provides empirical evidence of the evolution of New Zealand accounting standards and allows an exploration of whether there are links between standard setting as a professional activity and the professionalisation of accountants.

²⁰ K.M. Macdonald, *The Sociology of the Professions*, (London, 1995).

²¹ M. Seneviratne, *The Legal Profession: Regulation and the Consumer*, (London, 1999).

²² M.G. Keenan, 'Between Anarchy and Authority,' *Accounting History*, 5:2 (2000), pp.93-99. A.W. Graham, *The First Fifty Years 1909-1959*, (Wellington, 1960); J. Millen, *The Third Quarter: The NZSA (founded 1909) from 1960-1984*, (Wellington, 1985).

²³ Zeff, (1979).

The structure of the thesis

The structure of the thesis was determined by the research methods employed. Research material was obtained from the archives of the Institute and interviews with some members and former members of the Institute's standard setting boards and committees. Using interviews to supplement or confirm archival material created a robust foundation for this thesis because those interviewed had overlapping membership of the standard setting boards, providing a continuous coverage of events from the early days of standard setting in New Zealand until the present day.

The thesis is, first, a history of standard setting in New Zealand and the role of the Institute as the standard setter. The thesis thus provides an analytical history of the evolution of standard setting in New Zealand. However, the thesis is also an historical enquiry about the professionalisation process, where the evidence from an examination of the history of standard setting is used to determine if standard setting is a professional project as per Larson's model of professional behaviour. The thesis is generated from 'the institutional and professional environment' and approached from a descriptive and empirical rather than theoretical analysis.²⁴

The thesis is structured in two sections. The first section places the thesis within the literature on accounting as a profession and research and standard setting, and its related topics. Section two documents the evolution of accounting standards in New Zealand as a case study providing empirical evidence that allows an exploration to determine if there is a link between standard setting and professionalisation.

Section one may be seen in two parts- chapter one and then chapters two to four. Chapter one introduces the thesis, its argument and methodology. The chapter first explores the history of accounting standards within the discipline of accounting history and this thesis within that discipline. The literature in accounting history is extensive, incorporating aspects of several academic disciplines. However, as the chapter notes, although the accounting profession drafted accounting standards for more than sixty years, little has been written on a detailed history of accounting standards by a professional national accounting association.

Why and how the accounting profession chose standard setting as a professionalisation tool are examined in chapters two to four. These chapters establish

²⁴ S.P. Walker, 'Structures, Territories and Tribes,' in *The Routledge Companion to Accounting History*, J.R. Edwards and S.P. Walker (eds), (London and New York, 2009), p.15.

accounting as a profession and hence its need for the acquisition and maintenance of professional status. The chapters demonstrate the importance of quality external financial reports for effective general economic decision-making, and hence why developing standards for these reports was a suitable way for accountants to maintain dominance in standard setting. Chapter two investigates the origins of the nineteenth century professions and how occupations, such as accounting, became professions. The suitability of developing accounting standards as one means of maintaining professional status is developed in chapters three and four. Chapter three explains the importance of quality external financial reporting, the role of accounting standards in ensuring this and introduces the nature of professional-state interaction in standard setting. Chapter four proposes that the intensity with which the accounting profession attempted to develop financial accounting theory is evidence of the seriousness with which the profession considered regulating external financial reporting, and hence a possible link to professionalisation. In these attempts the accounting profession has debated theories and ideas, with varying and disputed success, to describe the basic principles of financial accounting and create a framework for accounting standards.

The second section of this thesis- chapters five to eleven- analyses the history of accounting standards in New Zealand and key episodes in the development of those standards within the theoretical framework of Larson's model of professional behaviour. Chapter five outlines how the accounting profession began its involvement in maintaining and improving the efficiency of New Zealand capital markets through standard setting and how the Institute encouraged best practice and research through individual effort. Chapter six highlights a change in the Institute's attitude towards external financial reporting as it accepted a responsibility to provide guidance in preparing reports. By the end of the 1940s the Institute's attitude had changed again, towards national coordination of research on several accounting issues, including external financial reporting. These changes came about in part because of the increasing usefulness of branch study groups researching accounting related issues and in part because overseas accounting organisations, especially in the United Kingdom, were issuing their members with guidelines in external financial reporting. The Institute established its first national research committee, the Accounting Practice and Procedure Committee (APPC), in 1950.

Chapters seven and eight assess the work between 1961 and 1978 of the Board of Research and Publications (BRAP), the successor committee to the APPC. BRAP

was more successful than the APPC in developing best practice in external financial reporting because accounting was now an academic subject in New Zealand universities and university personnel were on the Board. During the 1970s, the Board became more certain in its actions, progressing from drafting Tentative Statements of Accounting Practice (TSAPs) to issuing Statements of Standard Accounting Practice (SSAPs) for external financial reporting.

Chapter nine analyses the Institute's progress in standard setting during the 1980s, when BRAP was replaced by the Accounting Research and Standards Board (ARSB). Through the ARSB the Institute maintained a mix of proactive and reactive behaviour in standard setting, responding to changing needs of users of financial reporting standards, filling gaps and using standards developed overseas. Since the 1940s the New Zealand accounting profession has cooperated across national boundaries and in recent decades the international connection has strengthened with the harmonisation of New Zealand and Australian accounting standards and the adoption of international accounting standards.

The influence of government is significant in standard setting. In New Zealand, the profession acted with the knowledge and support of government and government departments, such as the Treasury and, latterly, the Ministry of Economic Development. As Macdonald noted in his study of the British profession, the profession-state relationship was important for a profession to maintain its professional status. However, this thesis maintains that, in standard setting, the New Zealand Government left the actual process of standard setting to the accounting profession for much of the twentieth century. Challenges to the authority and professional independence of the profession in the 1970s and 1980s caused the Institute to recommend and support government changes to the standard setting process, as seen in chapters ten and eleven. Chapter ten examines the role of the New Zealand accounting profession in standard setting from 1992 to 2002, through its new committee, the Financial Reporting Standards Board (FRSB). The profession continued to be a dominant force in standard setting, working with the Accounting Standards Review Board (ASRB), the government statutory body now giving legal backing to New Zealand accounting standards. During the 1990s, the FRSB developed a set of high quality accounting standards within a conceptual framework that permitted sector neutrality and differential reporting and the standards were increasingly aligned with international standards. Chapter eleven reviews the history

of standard setting from 2003 to 2010 as the ASRB and FRFB cooperated to establish a process for adopting International Financial Reporting Standards (IFRS). The two boards attended to the subsequent challenges of maintaining sector neutrality and accommodating the increasing need for differential reporting following Institute and Government reviews of the financial reporting framework.

This thesis provides a distinctive historical approach to an accounting topic and in so doing uses as a case study the history of accounting standards in New Zealand, and the role of the New Zealand Institute in producing those standards, to provide a new perspective on the concept of professionalisation.

**SECTION ONE: STANDARD SETTING AND THE
PROFESSIONALISATION OF ACCOUNTING**

Chapter One: Accounting History Literature and Methodology

Introduction

Accounting and history may appear as two distinct spheres of academic research but they can intersect, as in accounting history. Despite the relatively recent origins of accounting history, accounting historians have examined many areas of accounting from an historical perspective including topics of interest in this thesis; the professionalisation of accounting and standard setting.

The first part of this chapter explores the literature, placing this thesis in the context of the international and New Zealand literature in accounting history on standard setting and professionalisation. The second part of this chapter discusses the methodology used in this thesis; historical analysis on the history of the New Zealand Institute as a case study in standard setting; archival history and oral history to obtain the source material necessary to answer the research questions.

Accounting history and its literature

The literature that provides the background to this thesis covers a number of fields. This thesis is a history of accounting standards and is therefore grounded in two disciplines, history and accounting. However, there is a third discipline, accounting history, in which scholars have undertaken research relevant to a history of accounting standards. Hence the literature for this thesis is found in history, accounting and accounting history. To understand the increasingly regulatory nature of accounting standards and the changing role of the accounting profession as a drafter of those standards, researchers studied the environment in which the standards were produced and examined the political and social changes that influenced the accounting profession. An exploration of these aspects of professional behaviour incorporates findings in sociology. Thus elements of a fourth discipline may be added to the literature relevant to a history of accounting standards, but it is accounting history that provides most of the literature. This section of the chapter focuses on the literature on accounting standards in the specified disciplines but only on the literature from English-speaking countries, for the thesis began as a history of accounting standards in New Zealand, an English-speaking country with strong British links.

Accounting history is an interdisciplinary subject in that it incorporates elements of history and accounting and uses social science methodology and

sociological approaches to studying issues. Interdisciplinary historical research is a recognised and expanding area of inquiry.¹ Jordanova, when discussing interdisciplinary historical research, noted that this phrase ‘implies continued allegiance to a discipline combined with openness to other perspectives.’² Jordanova explored the possibilities of interdisciplinary research, although she cautioned that researchers from one discipline needed to acknowledge the approaches that researchers in another discipline have developed within their own field of study. The literature in accounting history reflects the richness of interdisciplinary studies that comes from using different perspectives and approaches. This thesis contributes to that richness. Where accounting history usually draws its epistemology from the discipline of accounting this thesis adds to accounting history literature by first drawing its epistemology from history

There are three parts to this section of the chapter. The first part looks at the relationship between accounting and accounting history and then outlines the accounting literature relevant to a history of accounting standards. Although this thesis does not explain the content and application of accounting standards it was necessary to study the specialist accounting literature on accounting standards to obtain an understanding of accounting standards, financial accounting theory and the nature of accounting regulation. The second part of this section outlines the relationship between accounting history and history, showing the similarity of approaches to research in both disciplines. This section also sets out the structure of this thesis and how the thesis may be placed in accounting history from a history perspective. The third and final part of this section explores the literature on professions and accounting as a profession in history and accounting history, as a lead into the more analytical discussion of professionalisation in the following chapter.

Accounting history and accounting

Accounting history has a strong affiliation with accounting. Accounting historians are more likely to be accountants than historians and accounting history is more likely to be taught and studied in tertiary commerce and business schools than in

¹ L. Jordanova, *History in Practice*, (London, 2000).

² *Ibid*, p.87.

the humanities.³ This emphasis on accounting may explain the focus of accounting history studies on the accounting profession, its organisations and accounting practices.⁴ Although accounting history appeared as a specific area of research in the 1970s, the first studies in this discipline came several decades earlier, around the beginning of the twentieth century.⁵ In both the United Kingdom and United States some accountants were interested not only in the practice of accounting but also in its development. During the first half of the twentieth century, accounting practitioners and academics, such as Littleton and Yamey, published articles on issues that today we would call accounting history.⁶ However, interest in the origins of accounting and the development of accounting practice remained confined to individual accountants like Littleton and Yamey until the second half of the twentieth century.

In 1968, accounting history became a formally recognised area of accounting research when the American Accounting Association established a Committee on Accounting History.⁷ The Committee on Accounting History aimed to

...propose objectives for research in accounting history, develop guidelines for the teaching of accounting history in undergraduate and graduate courses, and provide a forum...through which those interested in the teaching or research of accounting history can hear papers and exchange ideas.⁸

In 1973, the Committee became the Academy of Accounting Historians. The Academy encouraged interested accountants to study and publish on historical aspects of accounting through its journal, *The Accounting Historians Journal*. Today there are more outlets for publishing research in accounting history, including *Critical Perspectives on Accounting; Accounting, Auditing and Accountability; Accounting History; Accounting, Organizations and Society* and *Accounting Business and Financial History*. These journals have been active in supporting other activities

³ S.P. Walker, 'Accounting in history,' *Accounting Historians Journal*, 32:2 (2005), pp.233-259. Accounting historians P.J. Miranti and R.D. Hines have history training.

⁴ This contrasts with Economics which has two distinct historical sub disciplines, Economic History, the study of real world events, and History of Economic Thought, incorporating the development of ideas in Economics

⁵ G.J. Previt, L.D. Parker and E.N. Coffman, 'Accounting History: Definition and Relevance,' *Abacus*, 26:1 (1990), pp.1-16, noted that Worthington wrote an historical book, *Professional Accountants in 1895*.

⁶ A.C. Littleton, *Accounting Evolution to 1900*, (New York, 1933); B.S. Yamey, 'Scientific bookkeeping and the rise of capitalism,' *Economic History Review*, 2nd series, 1:2/3 (1949), pp.99-113. See also A.C. Littleton and B.S. Yamey (eds), *Studies in the History of Accounting*, (London, 1956).

⁷ C.J. Napier, 'Historiography,' in Edwards and Walker, (2009), pp.30-49.

⁸ American Accounting Association 1970, quoted in Edwards and Walker, (2009), p.15.

within accounting history research, including international accounting history conferences and the World Congress of Accounting Historians.

Even though accounting history was established within accounting, with specialist journals and regular conferences, the subject was not usually a mainstream topic in tertiary commerce and business schools. A few universities, for example, Cardiff University, have research units in accounting history but they are the exception. Accounting history remains a small part of teaching and research, not commonly accepted into the curriculum of business schools focused on accounting practice.⁹ The accounting profession itself has not embraced accounting history as a major area of interest and accounting history is unlikely to be a subject for discussion at branch meetings. There has never been, for example, a New Zealand accounting history group within the New Zealand Institute of Chartered Accountants. However, as outlined later in the next section, New Zealand accounting academics interested in accounting history have engaged, as individuals, in accounting history research through publication in accounting history journals and participation in conferences of the Accounting and Finance Association of Australia and New Zealand and similar academic bodies.¹⁰

Within accounting, there are many studies on accounting standards and financial accounting theory, covering many aspects of these topics. Only some of these studies were used in this thesis and those used were chosen because they gave information and findings either directly relevant to a history of accounting standards or provided information that helped explain the motives and actions of the accounting profession as standard setter. Accordingly, the literature in this thesis includes studies that examined the nature of accounting standards such as Blake and Lunt's comprehensive general work on accounting standards, Bradbury and van Zijl's summary of the evolution of accounting standards in New Zealand and Benston's explanation of the areas of external financial reporting the standards cover.¹¹

⁹ In 2010, the Commerce schools in most New Zealand universities had a senior undergraduate or postgraduate course in accounting history. Source: websites of the universities. S.P. Walker, 'Structures, Territories and Tribes,' in Edwards and Walker (2009), p.24.

¹⁰ The Accounting and Finance Association of Australia and New Zealand, formerly the Accounting Association of Australia and New Zealand, is an organisation of tertiary academics.

¹¹ J. Blake and H. Lunt, *Accounting Standards*, (Prentice Hall, England, 2001); M.E. Bradbury and T. van Zijl, *The New Zealand Financial Reporting Framework*, (Milton, Queensland, 2005); G.J. Benston, 'Public (U.S.) compared to private (U.K.) regulation of corporate financial disclosure,' *The Accounting Review*, 51:3 (1976), pp.483-498.

There are a number of accounting studies on the nature of regulation and works useful to this thesis because they explain the concept of regulation and show the links between regulation and standard setting including studies by Buckley and Weston, Watson and Baldwin.¹² Good sources of information on accounting theory are Sprouse and Moonitz, Bell, Hendriksen and Wolk *et al.*¹³ Accounting studies on the effects of standard setting on the accounting profession's relationships with other groups in an economy include Solomons, who provides a very readable and understandable study of profession-state relations in standard setting, Pownall and Schipper's reflections on the application of standards and Tweedie and Whittington who explore the implications of using standards in specific situations.¹⁴

The accounting literature on accounting standards does include some history, on particular standard setting institutions such as Miller and Redding's history of the FASB in the United States, Rutherford's history of the Accounting Standards Committee in the United Kingdom and on particular countries such as Carey's history of the accounting profession in the United States.¹⁵ These histories were useful not only for their findings but also for the methodologies they used to research the histories. Other histories by accountants which gave useful insights into the evolution of accounting thought on standard setting include studies of the works of prominent colleagues such as that by Lee and Wolnizer, Emanuel and Stewart and Mumford and Peasnell.¹⁶ This thesis was therefore able to incorporate and continue the findings of several researchers in a number of areas relevant to the professionalisation of

¹² J.W. Buckley and J.F. Weston, *Regulation and the Accounting Profession*, (Lifetime Learning, California, 1980); D.J.H. Watson, 'Regulation: The Decline and Fall of the Accounting Profession or the Coming of the Golden Age,' in *Regulation and the Accounting Profession*, D.J.H. Watson (ed.), (St Lucia, 1981); R. Baldwin and M. Cave, *Understanding Regulation: theory, strategy and practice*, (Oxford, 1999).

¹³ R.T. Sprouse and M. Moonitz, *Accounting Research Study No. 3: A Tentative Set of Broad Accounting Principles*, (New York, 1962); P.W. Bell, *CVA, CCA and CoCoA: How fundamental are the differences?* (Australian Accounting Research Foundation, Melbourne, 1982); E.S. Hendriksen, *Accounting Theory*, (Illinois, 1982); H.I. Wolk, M.G. Tearney and J.L. Dodd, *Accounting Theory: a Conceptual and Institutional Approach*, (Cincinnati, Ohio, 2001).

¹⁴ D. Solomons, 'The Politicisation of Accounting: The Impact of Politics on Accounting Standards' in *Accounting Theory: a contemporary review*, S. Jones *et al.* (eds.) (Sydney, 1995); G. Pownall and K. Schipper, 'Implications of accounting research for the consideration of international accounting standards for US securities offerings,' *Accounting Horizons*, 13: 3 (1999), pp.259-280; D.Tweedie and G. Whittington, *The debate on inflation accounting*, (Cambridge, 1984).

¹⁵ P.B. Miller and R.J. Redding, *The FASB- The People, the Process and the Politics*, (Homewood, Illinois, 1988); Rutherford (2007); J.L. Carey, *The Rise of the Accountancy Profession: from technician to professional 1896-1936 and to responsibility and authority 1937-1969*, (New York, 1969 and 1970).

¹⁶ T.A. Lee and P.W. Wolnizer (eds), *The Quest for a Science of Accounting: an anthology of research*, (New York, 1997); M.J. Mumford and K.V. Peasnell (eds), *Philosophical Perspectives on Accounting: essays in honour of E Stamp*, (London and New York, 1993); D.M. Emanuel and I.C. Stewart (eds), *Essays in honour of Trevor R Johnston*, (Auckland, 1981).

accounting and standard setting, exploring why and how the accounting profession became a standard setter.

Accounting history and history

Although accounting history appears firmly within the discipline of accounting, there are links with the discipline of history. Accounting history shares many of history's objectives in that it 'advances understandings and encourages debate about the past' and uses historical techniques of description, narrative and analysis to recount past events and interpret them.¹⁷ It is understandable therefore, that accounting history's development in many respects has paralleled that of history as a discipline. In recent decades, research in history has broadened from an emphasis on politics and war to other areas of human endeavours, including society and social relationships. Historical research since the 1970s has focused more on social issues, such as gender, race and class and the relationships between groups in a society.¹⁸

The development of accounting history has seen similar changes with new areas of research that, at times, were the subject of strong debate.¹⁹ As in history these changes saw the development of a new strand of research focused on social issues. The old and the new strands of accounting history are sometimes referred to as 'traditional' and 'new' accounting history.²⁰ The distinction between the two strands is apparent in their alternative names. Traditional accounting history is the 'history of accounting' and new accounting history is 'socio-historical accounting research.'²¹ Traditional accounting history incorporated archival research, using official documents and following traditional historical methodologies, in many respects taking a functionalist view of accounting and claiming an objective or rational view of a subject.²² Traditional accounting history topics included the professionalisation of accounting and the history of large accounting firms and professional organisations.

New accounting history emerged during the 1980s as part of a wider academic reaction to the scientific methods and archival focus of the traditional accounting

¹⁷ Walker (2009), p.14.

¹⁸ J. Tosh with S. Lang, *The Pursuit of History: aims, methods and new directions in the study of modern history*, (Harlow, England, 2006).

¹⁹ Walker (2009), p.14. W. Funnell, 'Preserving history in accounting: seeking common ground between 'new' and 'old' accounting history,' *Accounting, Auditing and Accountability Journal*, 9:4 (1996), pp.38-64.

²⁰ R.K. Fleischman, P.A. Mills and T.N. Tyson, 'A theoretical primer for evaluating and conducting historical research in accounting,' *Accounting History*, 1:1 (1996), pp.65 and 66.

²¹ Napier (2009), p.36.

²² B.S. Yamey, *Essays on the History of Accounting*, (New York, 1978).

historians.²³ New accounting historians, such as Carnegie and Napier, claimed that the traditional approach ignored underlying social factors and had a 'whig' view of accounting as an evolutionary process, emphasising developments in accounting practices and thought as improvements on what went before.²⁴ These researchers also criticised the reliance of traditional accounting historians on the use of empirical and technical methods of research. There were 'strong theoretical and methodological objections to historical accounting research.'²⁵ Rather, new accounting historians argued that accounting history should concentrate on a study of the changes in accounting practice, its preconditions and consequences, while interpreting data within social and cultural contexts.²⁶ This philosophical base to new accounting history was greater than in traditional accounting history with broader causes and effects studied in the relationship of accounting and accountants to other social groups.²⁷ Accounting history now had a critical perspective on accounting and its relationship with society.²⁸ One of the first developments in new accounting history was a critical accounting project established in England to 'promote greater levels of self-awareness among those engaged in accounting regarding the conditions and consequences of their practices.'²⁹

During the 1990s, there was some tension between the two streams of research. Keenan defended traditional accounting history methodology, noting that historical explanation was a set feature of historical research and did not have to be

²³ A.G. Hopwood, 'The archaeology of accounting systems,' *Accounting, Organizations and Society*, 12:3 (1987), pp.207-234.

²⁴ G.D. Carnegie and C.J. Napier, 'Critical and Interpretive Histories: Insights into Accounting's Present and Future through its Past,' *Accounting, Auditing and Accountability Journal*, 9:3 (1996), p8.

²⁵ Napier, (2009), p.36.

²⁶ C.J. Napier, 'Research Directions in Accounting History,' *British Accounting Review*, 21:3 (1989), pp.237-254. For example, J. Roberts and J.A. Coutts, 'Feminization and Professionalization: A Review of an emerging literature on the Development of Accounting in the United Kingdom,' *Accounting, Organizations and Society*, 17:3/4 (1992), pp.379-395 and A.G. Puxty, 'The Accountancy Profession in the Class Structure,' in *Critical Accounts* (eds) D.J. Cooper and T.M. Hopper (London, 1990), pp.366-390.

²⁷ P. Miller, T.M. Hopper and R.C. Laughlin, 'The New Accounting History: An Introduction,' *Accounting, Organizations and Society*, 16:5/6 (1991), pp.395-403; K.W. Hoskin, 'Boxing Clever; For, Against and Beyond Foucault in the Battle for Accounting Theory,' *Critical Perspectives on Accounting*, 5:1 (1994), pp.57-85.

²⁸ For a wider discussion on the nature of critical studies see S.C. Lodh and M.J.R. Gaffikin, 'Critical Studies in Accounting Research, Rationality and J. Habermas: A Methodological Reflection,' *Critical Perspectives on Accounting*, 8:5 (1997), pp.433-474.

²⁹ R. Roslender, 'Critical Theory' in *Methodological Issues in Accounting Research: Theories, methods and issues*, (ed.) Z. Hoque (London, 2006), p.247.

teleological.³⁰ Bryer and Napier were not convinced.³¹ This debate was strong enough for accounting history journals to favour particular approaches. Critics of positivist and empirical accounting for instance usually did not publish in *The Accounting Review*.³² The debate on traditional versus new accounting history may have caused accounting historians to lose sight of the broader context of accounting history. On the other hand, the debate may be a good sign in that it shows that accounting history has developed to the extent that it is able to have specialised areas of research.

In recent years, several accounting historians have encouraged engagement between the two streams of research.³³ Differences between the two strands may not be as great as the debate indicated, some said, because ‘the dialogue between conventional and critical accounting historians frequently centres on source materials and the distinction between history and social science.’³⁴ Napier noted that theory remained an important technique in both streams.³⁵ With historians increasingly using social science techniques, the differences between accounting historians in the two strands were further reduced. Narrative, an established historical technique, could involve both archival work and theory.³⁶ Even so, the wider social consequences of the activities of the accounting profession were not addressed. Accounting history academics appeared to be more familiar with theory used to explain accounting rather than the activities of accountants. This thesis aims to combine these two streams of research, incorporating elements of both traditional and new accounting history through the methodologies used and by providing empirical evidence to support or refute a theory of professional behaviour.

Although new accounting history has broadened the range of studies in accounting history the discipline has been criticised for exploring a perceived limited

³⁰ M. Keenan, ‘A defence of ‘Traditional’ Accounting History Research Methodology,’ *Critical Perspectives on Accounting*, 19:6 (1998), pp.641-666.

³¹ R.A. Bryer, ‘The Struggle to Maturity in Writing the History of Accounting, and the Promise- some reflections on Keenan’s Defence of ‘Traditional’ Methodology,’ *Critical Perspectives on Accounting*, 9:6 (1998), pp.669-681; C.J. Napier, ‘Giving an Account of Accounting History: A Reply to Keenan’, *Critical Perspectives on Accounting*, 9:6 (1998), pp.685-700.

³² R.K. Fleischman, L.P. Kalbers and L.D. Parker, ‘Expanding the Dialogue: Industrial Revolution Costing Historiography,’ *Critical Perspectives on Accounting*, 7:3 (1996), pp.315-337.

³³ Napier (2009), p.39, cites R.K. Fleischman and V.S. Radcliffe ‘Divergent Streams of Accounting History: A Review and Call for Confluence’ in *Doing Accounting History: Contributions to the Development of Accounting Thought*, (eds) R.K. Fleischman, V.S. Radcliffe and P.A. Shoemaker (Amsterdam, 2003).

³⁴ Fleischman, Mills and Tyson (1996), p.63.

³⁵ Napier (2009), p.36.

³⁶ C. Poullaos ‘Telling stories about accounting history,’ *Critical Perspectives on Accounting*, 9:6 (1998), p.701-710.

range of topics which, some accounting historians argued, were too fragmented and specific.³⁷ Edwards and Walker, following Guthrie and Parker, lamented accounting history's emphasis on 'detailed investigations of specific and manageable subjects.'³⁸ Gaffikin agreed, although he saw this as a problem of the wider accounting profession, not just in accounting history. Gaffikin noted that studies of accounting remained limited and concentrated on relatively small areas of the discipline.³⁹ With the large literature in accounting history, any narrowness in the range of areas studied in accounting history does not appear immediately obvious. A perusal of the topics covered in Edwards' four volume anthology of the history of accounting, for example, includes method and theory, recording and reporting, cost and management accounting and the professionalisation of accounting, incorporating articles from academics prominent in both accounting and accounting history.⁴⁰ There is a range of topics in this anthology, but three of the volumes examine specific accounting topics. Only the fourth volume on professionalisation begins to consider accounting within a wider context than its specialised field. Missing are articles on broader aspects of accounting that impinge on wider society and the economy. When compared to a book on the history of New Zealand and Australian relations, for example, Edwards' book shows a narrower range of topics, illustrating the difference between accounting history and historical publications. Edwards' volume titles contrast with the history book's chapter themes that vary from cartoons and immigration to defence and education.⁴¹

Accounting history has yet to widen its perspective to consider the impact of the accounting profession and accounting issues on other groups in society or make comparisons between countries of the role of accounting and accountants. Although new accounting history takes a broader view of accounting and the accounting profession than traditional accounting history even here the focus remains on issues within accounting or issues that directly affect accounting. This focus may be a consequence of most accounting historians beginning their working careers as

³⁷ Other areas not relevant to this thesis include the study of ideas in accounting, in particular their historical development.

³⁸ Edwards and Walker (2009), p.2.

³⁹ Gaffikin (2008). p.221.

⁴⁰ J.R. Edwards (ed.), *The History of Accounting: Critical Perspectives on Business and Management*, (London, 2000).

⁴¹ P. Mein Smith, P. Hempenstall and S. Goldfinch, *Remaking the Tasman World*, (Christchurch, 2008).

accountants, but it is an issue that this thesis hopes is addressed by taking an historical approach to an accounting issue.

Accounting historians have been criticised for their lack of dialogue with other historians, communicating only with those researching in their area of study.⁴² There are several reasons why this is so. The intense debate between followers of the two strands of accounting history may account for this limitation as accounting historians focused on defending their chosen strand of research. In addition, the reluctance of accounting historians to confer with historians may be a reflection of interdisciplinary preservation. The relatively recent development of accounting history and its location in tertiary schools of commerce has emphasised the accounting aspect of accounting history. This emphasis may in part be a consequence of history departments' reluctance to extend their chosen areas of study. Accounting history is not seen as a sub discipline of history and therefore not included within history courses. Accounting language also differs from history language, evident in the writing styles of papers in the disciplines' journals, which may further inhibit communication. The structure of tertiary institutions may also hinder dialogue between historians and accounting historians. Interaction between disciplines is uncommon in tertiary institutions. The financial constraints experienced by tertiary institutions in recent times may have intensified competition between disciplines. Studies such as this thesis may go some way towards bridging the gaps identified above between history, accounting and accounting history.

Accounting history literature from professionalisation to standard setting

This section summarises the literature in history, sociology and accounting history that relates to accounting as a profession and the professional behaviour of accountants as standard setters, overseas and in New Zealand and locates this thesis within that literature. Much of the literature in accounting history on the professionalisation of accounting and the regulation of external financial reporting reflects the accounting origins of both traditional and new accounting history. In standard setting, the literature focuses, for example, on the accounting aspects of the role of the accounting profession with, until recently, little on the social significance of setting accounting standards. This is a significant omission because standard setting

⁴² J. Guthrie and L. Parker, 'Editorial: the coming out of accounting research specialisms,' *Accounting, Auditing and Accountability*, 19:1 (2006), p.5.

is a prominent area of accounting that helps form the professional reputation of accountants. The accounting profession therefore has an interest in ensuring that this perception is as positive as possible and, as this thesis suggests, the accounting profession's motives for developing accounting standards may be more than simply fulfilling client requirements.

The origins and social role of the professions and their organisations became the subject of study in the years before World War Two. Historians such as Carr-Saunders and Wilson led the way in the examination of occupations, how they changed and their relationships with other areas of British society.⁴³ Since then, several researchers have studied professions as an area of employment, identifying their similarities and differences and showing the contribution of the professions to the development of post-industrial society.⁴⁴ These studies were part of the beginning of historical research that moved from mainstream archival political and military history to critical social, gender and class history.

In both history, with studies on the professions, and in accounting history, with studies on accounting as a profession, the shift from traditional to new perspectives equated to, as Flanigan *et al.* pointed out, functionalist, interactionist and then critical views of professionalism, reflecting the different stages in the evolution of a profession.⁴⁵ Early studies on the professions took a functionalist approach, studying the authority and distinctive attributes or characteristics of a profession.⁴⁶ For the accounting profession, researchers focused on studies of accounting knowledge, ethical behaviour, self regulation and closure. Later studies, such as those of Willmott, took a broader view with an interactionist approach that looked at the claims of professionals to professional status through their actions which were aimed at achieving and maintaining professional status.⁴⁷ This approach was more sociological as researchers examined the autonomy of professionals, competition within and without the profession and how the profession achieved identity. The third

⁴³ A. Carr-Saunders and P.A. Wilson, *The Profession*, (Oxford, 1933).

⁴⁴ W.J. Reader, *Professional Men: The Rise of the Professional Classes in Nineteenth Century England*, (New York, 1966); E. Freidson (ed.), *The Professions and their Prospects*, (Beverly Hills and London, 1973); H. Perkin, *The Rise of Professional Society: England since 1880*, (New York, 1989); R.O'Day, *The Professions in Early Modern England 1450-1800: Servants of the Commonwealth*, (London, 2000).

⁴⁵ Flanigan *et al.* (1994).

⁴⁶ E. Greenwood, 'Attributes of a profession' in *Professionalization*, (eds) H.M. Vollmer and D.I. Mills, (Englewood Cliffs, 1966); D. Rueschemeyer, 'Professional autonomy and the social control of expertise,' in *The Sociology of the Professions: Lawyers, Doctors and Others*, R. Dingwall and P. Lewis (eds), (London, 1983).

⁴⁷ Willmott (1986).

and critical view of professions took an even more dynamic view of the professionalisation process, extending study of professional behaviour to the relationship of the profession to various groups in society.⁴⁸ Researchers using the critical approach studied market exclusion and the acquisition of monopoly of service performance. Interactionist and critical approaches were suitable lenses through which this thesis could view the link between standard setting and professionalisation in accounting, for the profession necessarily was responding to demands for regulation of external financial reporting and from there being both proactive and reactive as circumstances warranted. This thesis follows Napier's work examining the motives and consequences of changes in professional practice through the evidence shown in the accounting profession in New Zealand as standard setter as well as that of Allen and West in their studies of the efforts of the accounting profession to maintain dominance in accounting services.⁴⁹

A number of studies during the 1970s and 1980s used a critical, social history perspective to link with functionalist and interactionist approaches, examining the causes and effects of the characteristics of professions as consequences of power interplays between the professions and other groups. Freidson, for example, noted how professions controlled the knowledge required to deliver their services.⁵⁰ Larson highlighted the economic and social benefits professionals gained from their employment through controlling the market for their services.⁵¹ The importance of these studies whether describing particular stages in the profession's development or studying specific relationships between the profession and other institutions or groups lies in their acknowledgement of the interactions between the accounting profession and society.

Larson's model of professional behaviour is particularly appropriate for this thesis and therefore is used to form its theoretical framework. The model provides an explanation for relationships and events in the development of accounting as a profession, describing the origins and growth of accounting as well as the accounting

⁴⁸ K. Allen, 'In Pursuit of Professional Dominance: Australian Accounting 1953-1985,' *Accounting, Auditing and Accountability Journal* 4(1) (1991), pp.51-67.

⁴⁹ Napier (1989); Allen (1991); West (2003).

⁵⁰ E. Freidson, *Professional Powers: A Study of the Institutionalization of Formal Knowledge*, (Chicago, 1986).

⁵¹ Larson (1977), pp.49ff.

profession's motives.⁵² Both Lee and Macdonald have applied Larson's model of professionalisation to the actions of the accounting profession working to obtain and maintain market control of accounting practice.⁵³ Lee examined the motives of the accounting profession as standard setter and compared the history of the profession in the United Kingdom and United States, providing a clear analysis of the link between the two motives most usually ascribed to the actions of a profession. Macdonald applied Larson's model to several areas of accounting including auditing. Both studies showed that the model was suitable for explaining the motives and methods of the accounting profession.

Motivation is a key element in the behaviour of the accounting profession as standard setter. Hoskin and Macve, for example, highlighted the relationship between knowledge and power in the accounting profession.⁵⁴ These researchers and others examining the profession's motives in dominating the delivery of accounting services have noted the advantages the profession obtained from its actions.⁵⁵ Although the profession was responding to demand for its services the gains it made in social and economic terms were significant and sufficient for the profession to continue to act to ensure dominance of accounting. As with other professionals, accountants claimed they acted for the common good. Until the 1960s the accounting profession frequently stated that it acted in the public interest.⁵⁶ The profession said, for example, that it was acting in the public interest when setting standards but this claim was disputed.⁵⁷ Some observers challenged the accounting profession's public interest motive for carrying out accounting services. Sikka and Willmott saw accountants acting to

⁵² Larson's model of the 'professional project' and Macdonald's (1995) application of the model to the history of the ICAEW are discussed in the next chapter.

⁵³ T.A. Lee, 'The professionalization of accountancy: a history of protecting the public interest in a self-interested way,' *Accounting, Auditing and Accountability*, 8:4 (1995), pp.48-69. See the next chapter.; Macdonald (1995).

⁵⁴ K.W. Hoskin and R.H. Macve, 'Writing, examining, disciplining: the genesis of accounting's modern power,' in *Accounting as Social and Institutional Practice*, (eds) A.G. Hopwood and P. Miller, (Cambridge, 1994), pp.67-97.

⁵⁵ S.P. Walker and K. Shackleton, 'Corporatism and Structural Change in the British Accountancy Profession 1930-1957,' *Accounting, Organizations and Society*, 20:6 (1995), pp.467-503; A. Tinker and M. Neimark, 'The struggle over meaning in accounting and corporate research: a comparative evaluation of conservative and critical historiography,' *Accounting, Auditing and Accountability Journal*, 1:1 (1988), pp.55-74.

⁵⁶ Gaffikin (2008), p.79.

⁵⁷ S. Peltzman, 'Toward a more general theory of regulation,' *Journal of Law and Economics*, 19:2 (1976), pp.211-240.

maintain their professional reputation.⁵⁸ West noted that in addition to altruistic reasons, class and social status were important determining factors in the development of the accounting profession.⁵⁹

Once the profession became more business-like from the 1980s, it was less likely to openly consider the public interest and more likely to act in self interest. Lee saw this change as an example of the economic nature of the professionalisation process.⁶⁰ Schon went further, commenting that the profession was using its monopoly of the standard setting process to exploit the public for its own gain.⁶¹ Wolk *et al.*, among others, suggested that the profession's selfish actions, aimed at achieving social and economic status, may be responsible for the attempts to develop financial accounting theory.⁶²

Whether for public or self interest reasons, dominating accounting services enabled the accounting profession to carry out its professionalisation process. However, the success of the process depended in large measure on the ability of accountants to work together. Several studies on the professionalisation of accounting stressed the importance of accountants working together to ensure professional recognition.⁶³ Wickramasinghe noted that, in accounting, organisations legitimised their use of power.⁶⁴ Lee discussed the importance of the new professional accountants responding to competition by uniting and forming accounting associations to work on behalf of members.⁶⁵ Walker and Kedsle examined the Scottish accounting profession, where professional accounting began. Walker noted that the economic and social rewards gained by the first professional accountants were an incentive for the occupation to become a profession.⁶⁶ Kedsle described the rise of the Scottish accounting profession from competition with the legal profession over proposed changes to the Bankruptcy Act, which accountants felt would allow lawyers

⁵⁸ P. Sikka and H. Willmott, 'The power of "independence": defending and extending the jurisdiction of accounting in the United Kingdom,' *Accounting, Organizations and Society*, 20:6 (1995), pp.547-581.

⁵⁹ Lee (1995); B.P. West, 'The professionalisation of accounting: A review of recent historical research and its implications,' *Accounting History*, 1:1 (1996), pp.77-102; Tosh (2006), p148.

⁶⁰ Lee (1995).

⁶¹ D.A. Schon, *The Reflective Practitioner- How professionals think in action*, (New York, 1983).

⁶² Wolk *et al.* (2001), p.111. See Chapter Four. See also R.L. Watts and J.L. Zimmerman, *Positive Accounting Theory*, (New Jersey, 1986).

⁶³ In addition to references elsewhere in this chapter, see also P.L. McMickle and R.G. Vangermeesch (eds), *The Origins of a Great Profession*, (Memphis, 1987).

⁶⁴ D. Wickramasinghe, 'Power and Accounting: A Guide to Critical Research' in *Methodological Issues in Accounting Research: Theories, methods and issues*, (ed.) Z. Hoque, (2006), p.162.

⁶⁵ Lee (1995).

⁶⁶ Walker (1995).

to encroach on accounting services.⁶⁷ Studies such as these highlighted the importance of accountants developing accounting associations to control the working of the profession.

Much of the information on the working of accounting associations comes from general histories of accounting organisations. These histories, from early work by Robinson to more recent work by Street and Rutherford, retell the stories of the professionalisation of accounting.⁶⁸ Street and Rutherford's work is particularly pertinent to this thesis for they examine the working and motives of particular associations. Also relevant are studies on the origins of accounting associations such as Carnegie's examination of the Australian Institute of Incorporated Accountants, Chua and Poullaos' exploration of the Imperial influence in the Australian Accounting Association in the nineteenth century and Gavens *et al.*'s study of how Australian accounting associations cooperated in standard setting.⁶⁹ Other studies include Benston's comparison of the profession in the United Kingdom and United States and Nobes and Parker's work comparing several countries.⁷⁰

The motives of the first accountants to become professionals are examined by Carnegie and Williams as well as in more general histories of the profession, such as Lee *et al.*'s clear summary of the profession in the United Kingdom and United States and Flanigan *et al.*'s comparison of the profession in the United Kingdom, United States and Australia.⁷¹ Research on the professionalisation of accounting and the professional behaviour of accountants that is pertinent to this thesis include studies by

⁶⁷ M.J.M Kedsle, 'Mutual Self Interest- A Unifying Force: The Dominance of Societal Closure Over Social Background in the Early Professional Accounting Bodies,' *The Accounting Historians Journal*, 17:2 (1990), pp.1-19.

⁶⁸ H.W. Robinson, *A History of Accountants in Ireland*, (1964), RP Brief (ed), reprinted New York, 1984); Street (2005); Rutherford (2007).

⁶⁹ W.F. Chua and C. Poullaos, 'The Dynamics of 'Closure' Amidst the Construction of Market, Profession, Empire and Nationhood: A Historical Analysis of an Australian Accounting Association, 1886-1903,' *Accounting, Organizations and Society* 23:2 (1998), pp.155-188; G.D. Carnegie, 'The Australian Institute of Incorporated Accountants,' *Accounting, Business and Financial History*, 3:1 (1993), pp.61-80.

⁷⁰ Benston (1976); C.W. Nobes and R. Parker, *Comparative International Accounting*, (London, 2004); J.J. Gavens, G.D. Carnegie and R.W. Gibson, 'Co-Participation in the Australian Standards Setting process,' *Accounting and Finance*, (November 1989), pp.47-58.

⁷¹ G.D. Carnegie and B.G. Williams, 'The first Professors of Accounting in Australia,' *Accounting History*, 6:1 (2001), pp.103-116; Lee *et al.* (1996); M.A. Flanigan, R.H. Tondkar and E.N. Coffman, 'The Comparative Development of the Accounting Profession in England, the United States and Australia: A Sociological Interpretation,' *Advances in International Accounting*, 6 (1994), pp.295-316.

Willmott, among other accounting historians.⁷² Walker and Pong and Whittington, for example, explore the motives and actions of accounting associations as standard setters and Boston *et al.* examine the relationship of the associations with other institutions.⁷³

New Zealand studies in accounting history

There are several studies in accounting history in New Zealand. As occurred overseas, accounting history in New Zealand was the province of individual accounting academics. Most of these studies adopted an accounting rather than an historical perspective. Early publications on the history of accounting, written in the main by such accounting academics as Rodger at Victoria University of Wellington, and Johnston at the University of Auckland, were traditional accounting history articles, rather than books, and were usually printed in the New Zealand Institute's journal, *The Accountants' Journal* (the *Journal*).⁷⁴ For the most part these articles were narrations of the history of the profession, based on solid research that gave other New Zealanders valuable introductions to the profession. The *Journal* enhanced the work of these individuals by also reprinting articles on the history of accounting written by leading accountants overseas.⁷⁵

Later publications of traditional accounting history included articles published in the *Journal* on the beginnings of the accounting profession in New Zealand.⁷⁶ Elements of traditional accounting history have also appeared in histories of government departments related to accounting, such as the Treasury.⁷⁷ These publications are useful because they show the relationship between the New Zealand

⁷² H. Willmott, 'Organising the Profession: A Theoretical and Historical Examination of the Development of the Major Accountancy Bodies in the UK,' *Accounting, Organizations and Society*, 11:6 (1986), pp.555-580;

⁷³ S.P. Walker, 'The Genesis of Professional Organizations in Scotland: A Contextual Analysis,' *Accounting, Organizations and Society*, 20:4 (1995), pp.285-310; R.G. Walker, 'Australia's ASRB: a case study of political activity and regulatory 'capture'', *Accounting and Business Research*, 17:67 (1987), pp.269-286; C.M. Pong and G. Whittington, 'The Withdrawal of Current Cost Accounting in the United Kingdom: a study of the Accounting Standards Committee,' *Abacus*, 32:1 (1996), pp.30-53; J. Boston, J. Martin, J. Pallot and P. Walsh (eds), *Public Management: The New Zealand Model*, (Auckland, 1996).

⁷⁴ W.G. Rodger (ed.), *An Introduction to Accounting Theory*, (Wellington, 1957).

⁷⁵ For example, A.A. Fitzgerald, 'English and American Attitudes towards Accounting', *The Accountants' Journal*, 21:1 (1942), p.5; M.E. Murphy, 'The Last Decade of British Professional Accountancy,' *The Accountants' Journal*, 30:7 (1952), pp.194-205.

⁷⁶ Anonymous, 'History Recalled,' *The Accountants' Journal* 73: 1 (1994), p.49; D. Davis, 'Railroaded into the Crash,' *The Accountants' Journal*, 74:1 (1995), pp.49-53.

⁷⁷ M. McKinnon, *Treasury: The New Zealand Treasury, 1840-2000*, (Auckland, 2003).

accounting profession and other institutions, but from a point of view outside the profession. Not all accounting history published in New Zealand belonged in the traditional accounting history category. Some New Zealand accounting academics studied areas of critical accounting history. Several Massey University personnel, for example, have written on aspects of accounting as a profession.⁷⁸

In 2002, Emery *et al.* published a study of women in the New Zealand accounting profession. Baskerville explored the effect on entry to the profession of a move to full time study for accounting qualifications.⁷⁹ Critical accounting history however, remained a minor stream of research in New Zealand. If accounting history has been a small part of the programmes offered in commerce and business schools, critical accounting history is just a small subset of accounting history courses.

Even though accounting history was not a core part of the profession, the New Zealand Institute, and not just the universities, has fostered research in accounting history. The Institute commissioned histories for its fiftieth and seventy fifth anniversaries.⁸⁰ Often, as part of their duties, directors of research in the Institute wrote articles giving background information on specific accounting issues.⁸¹ Bradbury and van Zijl provided a brief account of standard setting in New Zealand, focussing on New Zealand's adoption of international accounting standards in 2005-7 and subsequent events, including attempts to develop a regulatory structure for financial reporting.⁸² Baskerville published work in a number of areas, including the recollections of some accountants involved in the attempt to introduce Current Cost Accounting (CCA) in the 1970s.⁸³ Baskerville and Keeper also delivered a paper at the 2007 international accounting history conference on Robert Muldoon, a former New Zealand Prime Minister who was a member of the Institute and a professional accountant.⁸⁴

⁷⁸ For example, A.R. Rahman, L.W. Ng and G.D. Tower, 'Public Choices and Accounting Standard Setting in New Zealand: An Exploratory Study,' *Abacus*, 30:1 (1994), pp. 98-117.

⁷⁹ M. Emery, J. Hooks and R. Stewart, 'Born at the wrong time? An oral history of women professional accountants in New Zealand,' *Accounting History* 7: 2 (2002), pp.7-34 and R.F. Baskerville, 'Professional closure by proxy: the impact of changing educational requirements on class mobility for a cohort of Big 8 partners', *Accounting History*, 11:3 (2006), pp.289-317.

⁸⁰ Graham (1960); Millen (1985).

⁸¹ For example, B. Porter and K. Simpkins, 'Securities Commission Report: a Blueprint for the Future?' *The Accountants' Journal*, 69:5 (1990), pp.16-20.

⁸² Bradbury and van Zijl (2005).

⁸³ Baskerville (1994).

⁸⁴ R.F. Baskerville and T. Keeper 'Robert Muldoon, Accountant and Prime Minister', Paper presented at Banff Accounting History Conference, Canada, 2007.

Accounting history is part of the interests of individual accounting academics in most universities rather than a separate area of study and research. Other New Zealand academics who have published in accounting history include Rahman, Perera, and Hooks at Massey University; Keenan at the University of Auckland; Emery at Auckland University of Technology; Colquhoun, Fowler and Baskerville at Victoria University of Wellington; and Whiting at the University of Otago.⁸⁵ In general, the topics studied in accounting history at New Zealand universities have followed prominent issues in accounting, such as the development of standards in the public sector. Some of these academic studies have examined critical issues. But in general the accounting profession in New Zealand has more usually restricted its studies in accounting history to an accounting rather than an historical approach.

The New Zealand literature most relevant to this thesis may be divided into two areas: a general approach to standard setting and detailed analyses of particular accounting standards. Zeff's account of the early decades of standard setting in New Zealand provides the best example to date of the general approach. Zeff's exploration differs from other accounting history studies in that it considers the steps taken by the Institute in developing accounting standards.⁸⁶ Zeff used archival and oral history techniques in researching for his book but his study finishes in the middle of the 1970s and his research was limited by time and other resources.⁸⁷ Much has happened since the mid 1970s in the development of accounting standards, both in New Zealand and overseas.

There are more studies on a number of specific standard setting issues, in particular accounting for inflation, accounting for investment properties, the impact of sector neutral standards and the harmonisation of accounting standards. Using oral history, Baskerville produced papers outlining and analysing events in the Institute's efforts to provide a standard that accounted for changing prices.⁸⁸ Velayutham and Perera, and a few years later, Keenan, made close examinations of the reactions of the

⁸⁵ M. Emery, J. Hooks and R. Stewart (2002), pp.7-34 and R.F. Baskerville (1994); W.F. Chua and A. Sinclair, 'Interests and the Profession-State Dynamic: Explaining the Emergence of the Australian Public Sector Accounting Standards Board,' *Journal of Business, Finance and Accounting*, 21:5 (1994), pp.669-705; P. Colquhoun, 'The First Century,' *The Accountants' Journal*, 75:2 (1996), pp.25-28; Keenan (2000), pp.93-119; R.H. Whiting and C. Wright, 'Explaining Gender Inequity in the New Zealand Accounting Profession,' *British Accounting Review*, 33:2 (2001), pp.191-222.

⁸⁶ Zeff (1979). Zeff is Professor of Accounting at Rice University, Houston, Texas, USA.

⁸⁷ Zeff, private correspondence (2009).

⁸⁸ Baskerville (1994 and 1999).

profession and other interested groups to the Institute's attempts to provide an innovative response to entities accounting for subsidiaries.⁸⁹

This thesis aims to provide new insights into the role of standard setting as a form of professional behaviour that helps explain why studies of the same event may produce opposite conclusions. Keenan and Velayutham and Perera studied the same episode in standard setting, the creation of the first statutory standard authorising body in New Zealand, and drew different conclusions. Although the three researchers observed the same event and used the same assumption, that standard setting was an example of professional behaviour, Keenan argued that the event equates to professionalisation, while Velayutham and Perera argued this could be seen as deprofessionalisation.⁹⁰ That experienced researchers could come to such different conclusions highlights the importance of continuing to research the motivations of the profession in being a standard setter and therefore significance of this thesis in contributing to this discussion.

Other studies in New Zealand accounting history include Rahman *et al.* who considered public choice and setting accounting standards in New Zealand.⁹¹ Lye *et al.* discussed the development of New Zealand public sector financial reforms, Boston *et al.*, Newberry, and Bradbury critically analysed the impact of sector neutral standards on public sector entities and Bradbury, Bradbury and van Zijl and Bradbury and Baskerville examined the impact of harmonisation and a growing international dimension to standard setting.⁹²

This thesis is best placed in relation to Zeff's 1979 study, for in many respects it continues Zeff's research. As in Zeff's book on the origins of New Zealand's standard setting history, this study examines the motives and activities of the New Zealand Institute and some members of the Institute in standard setting, placing the New Zealand history of standard setting within the context of the international history of standard setting. The thesis contributes to the literature by extending Zeff's study in

⁸⁹ Velayutham and Perera (1995 and 1996); Keenan (2000).

⁹⁰ *Ibid.*

⁹¹ Rahman *et al.* (1994).

⁹² J. Lye, H. Perera and A. Rahman, 'The Evolution of Accruals-based Crown (government) Financial Statements in New Zealand,' *Accounting, Auditing and Accountability*, 18:6 (2005), pp.784-815. Boston *et al.* (1996); S.M. Newberry, *New Zealand's Public Sector Financial Management System: Financial Resource Erosion in Government Departments*, (Canterbury, 2002); S. Newberry (ed.), *The Legacy of June Pallot: Public Sector Financial Management Reform*, (Greenwich, 2006); M.E. Bradbury, 'Discussion of Whittington,' *Abacus*, 44:2 (2008), pp.169-180; Bradbury and van Zijl (2005); M.E. Bradbury and R.F. Baskerville, *Sector Neutral Accounting Standards: a Ten-Year Experiment, Working Paper Series No. 48*, (Wellington, 2007).

time, continuing the research to incorporate the last three decades. It also adds depth by proposing a theoretical framework within which to explain the motives and actions of the profession. This is achieved through a case study of a professional association undertaking one professional activity, thus making a comprehensive and broad study of the history of standard setting in New Zealand. Such a study goes some way to respond to Gaffikin's (2008) recognition of a gap in the literature on accounting standard setting when he noted the lack of an extensive study of the actions of the New Zealand Institute in developing accounting standards.⁹³

The discussion on the literature in this chapter places this thesis within interactionist accounting history literature as it aims to extend the studies of accounting academics such as Zeff and West, using the theoretical lens of Larson. Little has been published to date on the history of standard setting in a way that emphasises over a period of time why and how an organisation developed accounting standards.⁹⁴ There are studies on particular standard setting boards but not on an accounting association.⁹⁵ This thesis aims to provide such a history and does so using established historical methodologies.

Methodology

This section of the chapter is in three parts. The first part begins with a discussion on how the thesis is structured and why, examining the use of narrative and case study in the thesis and finishing with a discussion on why a history of standard setting begins not with the first New Zealand accounting standards but earlier, in the origins of research in the New Zealand Institute. The second part of this section explains why archival research and oral research are used. The third part of this section describes how the methodology was used and the sources of the data.

Narrative and case study

The subject of this thesis, the history of an accounting association setting accounting standards, and the nature of the available data, archives and interviews, determined the structure of this thesis, following the methodological principles of

⁹³ Gaffikin (2008).

⁹⁴ Zeff (1972 and 1973).

⁹⁵ Street (2002 and 2005); Rutherford (2007).

Fairburn and Tosh.⁹⁶ Fairburn stressed the importance of researchers considering ‘the relationship between the aims of an enquiry and its data, concepts and forms of reasoning and their justification.’⁹⁷ Tosh saw these principles illustrated in the choice of methodology. Accordingly, an examination of the role of the New Zealand Institute as standard setter and the information available in the Institute’s archives, determined the use of narrative and analysis within a theoretical framework.

In a useful introduction to general theories in accounting history, Hoque brings together a number of discussions on a variety of methodologies that may be used to elicit information on aspects of accounting professional behaviour. These discussions focus on the effectiveness and usefulness of different types of theories.⁹⁸ Of particular interest to this thesis is the contribution of Roslender in Hoque’s book. A study of standard setting becomes an exploration of the relationship between the accounting profession and other groups in an economy, particularly the state and the business community. Roslender outlined a history of critical theory, providing many references used in this thesis to explain the theoretical framework used.⁹⁹

An historical analysis in narrative form provides a case study to examine the hypothesis of this thesis. Narrative is a long established method of historical research.¹⁰⁰ This is particularly so when the subject of the narrative exists over a period of time and events are related in order to tell the story of the subject. Narrative allows knowledge to be conveyed in a way that provides elucidation and comprehension of a subject. It allows the facts, once distinguished, to speak for themselves. When the narration covers events occurring over a number of years it is important that the facts are identified and placed so the story is apparent.

Accounting standards in New Zealand are more than six decades old and narration tells the story of their history. ‘A descriptive model gives greater capacity to explain...and a neutral perspective for assessing the behaviour of all the identifiable interest groups.’¹⁰¹ For a subject such as the history of accounting standards in New Zealand, narrative allows the stages in the development of accounting standards to both stand alone and connect with each other in order to tell the story of accounting

⁹⁶ M. Fairburn, *Social History: problems, strategies and methods*, (New York, 1999); Tosh (2006).

⁹⁷ Fairburn (1999), p.3.

⁹⁸ Hoque (2006).

⁹⁹ Roslender (2006).

¹⁰⁰ A. Green and K. Troup, *The houses of history*, (Manchester, 1999), p.204.

¹⁰¹ A.R. Rahman, *The Australian Accounting Standards Board: the establishment of its participative review process*, (New York, 1992), p.8.

standards. Narrative provides an opportunity to identify and analyse the relationships between the Institute and other groups, especially government, and in turn how these relationships influenced the development of accounting standards.

Several researchers have advocated the usefulness of narrative in case studies.¹⁰² For Tosh, narrative was an essential element that explained the description of an event, which recreated the past, and allowed the event to be analysed, thus interpreting the past.¹⁰³ Llewellyn saw narrative as grounding the theoretical arguments framing an event.¹⁰⁴ An advantage of narrative is that the process of illustrating an event and establishing and defining its main features allows the particular contexts in which the event occurs to be described and evaluated. Narrative thus identifies the strategies, actions and implications of an event, giving these form and meaning. Importantly for this thesis, narrative is useful for observing and defining decisive moments in a history, highlighting these turning points and the factors that are significant to them.

Narrative as a methodology has been used before in accounting history. Covaleski and Dirsmith in 1983 used narrative to explain the history of system change in hospital administration while Scapens and Roberts explored the consequences of an attempt to introduce a new accounting system in a large multinational entity.¹⁰⁵ But these studies are of particular events, not a series of events, as in the history of standard setting. There is a precedent for the use of narrative in exploring the history of standard setting in an accounting organisation. Rutherford used this methodology in his 2007 history of the United Kingdom's Accounting Standards Committee. He chose to use historical narrative in his study, basing his work on that of the historian, Evans, and justifying his choice on the grounds of the objective nature of historical knowledge.¹⁰⁶ However, while historical knowledge may be objective, this is dependent on the quality of the data. This thesis has attempted to manage the problem of relatively sparse archival material by matching information from archival and oral

¹⁰² A.J. Berry and D.T. Otley, 'Case-Based Research in Accounting,' and R. Scapens, 'Doing Case Study Research,' in *The Real Life Guide to Accounting Research*, (eds.) C. Humphrey and B. Lee, (2004), pp.231-255 and pp.257-279; Tosh (2006).

¹⁰³ Tosh (2006).

¹⁰⁴ S. Llewellyn, 'Narratives in Accounting and Management Research,' *Accounting, Auditing and Accountability Journal*, 12:2 (1999), pp.220-236.

¹⁰⁵ M.A. Covaleski and M.W. Dirsmith, 'Budgeting as a means of control and loose coupling,' *Accounting, Organizations and Society*, 8:4 (1983), pp.323-340; R.W. Scapens and J. Roberts, 'Accounting and Control: a case study of resistance to accounting change,' *Management Accounting Research*, 4:1 (1993), pp.1-32.

¹⁰⁶ Rutherford (2007); R. Evans, *In Defence of History*, (London, 1997).

history sources. New Zealand events were also analysed and placed in the context of standard setting elsewhere, to construct a more comprehensive narrative of accounting standards.

As Berry and Otley observed, using a case study and narrative ‘grounds theoretical speculation in the empirical observation of real world phenomena.’¹⁰⁷ As an empirical means for exploring an idea, case studies therefore help illuminate a subject and make it possible to evaluate an hypothesis.¹⁰⁸ The New Zealand accounting profession is a useful case study because the country, and hence the profession, is small and the profession has one major association, the Institute, which makes it easier to examine the wider role of the accounting profession in standard setting.¹⁰⁹ The activities of the Institute, the steps it took to develop accounting standards, the workings of the committees it created to undertake the writing of accounting standards and the forces influencing those committees clarify the history of standard setting in New Zealand. As an historical accounting history thesis, this thesis does not attempt to explain the subject matter of accounting standards themselves, such as depreciation and reserves. Rather, this thesis focuses on the workings of the accounting profession as a profession.¹¹⁰ Taking an historical narrative approach in this study allows a theoretical framing to be applied to empirical work, helping place the Institute’s actions in the broader framework of professional activities.

This thesis aims to ground Larson’s model of professional behaviour, as the theoretical framework, in the evidence of the New Zealand Institute’s role as standard setter. The thesis tests the hypothesis by extrapolating from a specific example to verify general observations on the nature of the accounting profession and its reasons for regulating external financial reporting. Studying the actions of one accounting association, in this case the New Zealand Institute, during the twentieth century and the first decade of this century, provides ‘first-hand’ data and, thus, valuable

¹⁰⁷ Berry and Otley (2004), p.249.

¹⁰⁸ S. Sarantakos, (1993), p.115; M. Fairburn (1999), p.83.

¹⁰⁹ Researchers have explored the effects of competing professional accounting organisations. See, for example, A.J. Richardson, ‘Professionalization and Intraprofessional Competition in the Canadian Accounting Profession,’ *Work and Occupations*, 14:4 (1987), pp.591-616.

¹¹⁰ As a history thesis on an accounting topic this study is more ‘at home’ than first apparent. When accounting first became an academic subject in universities early in the twentieth century it was often placed in the History/Economics Departments.

information on whether the accounting profession used regulation in its professionalisation process.¹¹¹

The study begins well before the first accounting standard. Zeff began his history of standard setting in New Zealand by looking at early efforts of individual members of the Institute to undertake and encourage research in accounting. The profession's attempts at research are a logical starting point for such a history, because research led to the development of accounting standards. 'Research' has many meanings, covering many aspects of enquiry, from analysis to review, but all leading to adding to a body of knowledge. Questioning, analysing and examining a topic or issue allow researchers to investigate and explore. It is not difficult to see that by doing so they are adding to a body of knowledge. Searching for new material is a clear definition of 'research', because new information is obtained. 'Research' may also be adding to a body of knowledge not necessarily with new material, but with a review or synthesising of information that presents knowledge in a new way, making it more comprehensible or allowing information to be seen in a new light and from there leading to the discovering of new knowledge.

Applied to the professions, research was important for the advancement of an occupation's technical knowledge. Whether considering new knowledge or repackaging existing knowledge, research enabled a profession to define and describe its technical knowledge and thus allow an occupation to distinguish itself from other occupations. A profession carefully guarded its technical knowledge, or more particularly the ability to apply that knowledge. Accessing and using this knowledge as a source of income became points of reference in professional behaviour. The accounting profession was no exception. In New Zealand, as elsewhere, developing technical knowledge in areas such as auditing and external financial reporting came from research. A study of the history of standard setting must therefore begin with the accounting profession's attempts to develop technical knowledge through research.

In his writing on the accounting profession in New Zealand and elsewhere, Zeff showed the link between research and standard setting.¹¹² Research added to the body of accounting knowledge, whether through exploration of new material or reviews of existing information, thus improving accounting methods. In addition, the

¹¹¹ S. Sarantakos, *Social Research*, (Melbourne, 1993), p.116. Previts, Parker and Coffman (1990) noted that accounting practice and accounting organisations would benefit from longitudinal studies.

¹¹² Zeff (1972).

specialised standard developing committees came from research committees. For professions such as accounting, research was a recognisable starting point for developing standards. Research did not necessarily begin with formal structures like committees. A profession might encourage individuals to conduct courses or give seminars to fellow professionals. Thus, research may include study to prepare for talks or to write articles that examine new knowledge or repackage knowledge developed elsewhere. In some respects, therefore, this thesis may be considered a narrative and case study on research that led to the improvement of standard setting.

Archival research and oral history

The historical information on the New Zealand Institute as standard setter is derived from archival research and social research in the form of oral history to identify the evidence for the actions of the New Zealand Institute and its members. History and accounting history research undertaken using written records is a long-standing and conventional method of obtaining relevant information, with distinct advantages.¹¹³ Archival research helps to identify events and to determine and interpret facts. Carnegie and Napier stated ‘...accounting history is enhanced by locating our narrative within an understanding of the specific context in which the object of our research emerges and operates.... (and) historical research in accounting gains its strength from its firm basis in the ‘archive.’¹¹⁴ Traditional studies used archival materials from institutions. Data collected from surveying entity activities allowed positive and empirical research, a method of scientific research that emphasised the importance of observing and testing ideas about the world.¹¹⁵ Knowledge of a subject came from systematic study of written records, in effect, archival research.¹¹⁶ Empirical research included the benefits of sources that researchers could verify, thus allowing the historian and accounting historian to reproduce and interpret the past accurately and objectively.

Studies similar to this thesis have used archival and oral research, such as Rutherford’s history of the British Accounting Standards Committee and Street’s

¹¹³ R.K. Fleischman and T.N. Tyson, ‘Archival Researchers: an Endangered Species?’ *Accounting Historians Journal*, 24:2 (1997), pp.91-109.

¹¹⁴ Carnegie and Napier (1996).

¹¹⁵ Ibid.

¹¹⁶ Green and Troup (1999), p1.

study of the G4+1.¹¹⁷ In his study of standard setting in New Zealand Zeff also used both archival history and interviews with standard setters. This study of the role of the New Zealand Institute in the history of standard setting in New Zealand employs the same methodology. The Institute's archives contain much of the information needed to make a successful study of standard setting in New Zealand, but the recent origins of accounting standards mean that the standard setters themselves are a further source of information. The choice of archival and oral methodologies for this thesis was also occasioned by the fact that much information has been lost since Zeff (1979) did his study of the early decades of the Institute as standard setter. Zeff, for example, makes reference a number of times in his book to committee and board minutes that are no longer available in the Institute's head office. Therefore I chose to augment the archival data available by interviewing some current and former members of the Institute's standard setting bodies.

In both history and accounting history some researchers have queried studies that rely on archival material.¹¹⁸ For these academics archival research tells only part of the history narrative: that part laid down by a selected group in society. Critical historians note that the elite and powerful have the means to record information that is denied to many others, including women and those in lower social classes.¹¹⁹ Researchers need other methodologies to access historical information from the silent majority in society. Oral research is one method adopted by critical historians in order to recover hidden histories, especially of the powerless. Researchers who use new accounting history approaches consider accounting from a cultural aspect, focussing more on the structure and uses of accounting information as a means of power and social control.¹²⁰ These researchers studied the role of accounting in society, 'aiming for an understanding of how our world has changed through the lens of accounting.'¹²¹

Oral research incorporates oral history, the researching of history using interviewing, and oral tradition; the passing down of history through story telling. Until the 1960s, oral research was not well used but since that time oral history has

¹¹⁷ Rutherford (2007); Street (2005).

¹¹⁸ See, for example, B.D. Merino, 'Critical Theory and Accounting History: Challenges and Opportunities,' *Critical Perspectives on Accounting*, 9:6 (1998), pp.603-616.

¹¹⁹ L.M. Kirkham and A. Loft, 'Gender and the Construction of the Professional Accountant,' *Accounting, Organizations and Society*, 18:6 (1993), pp.507-558.

¹²⁰ Carnegie and Napier (1996).

¹²¹ Napier (2006).

become more acceptable as a research technique.¹²² With social and cultural changes and the development of social sciences, researchers have found that oral history is an effective method for recreating the past.¹²³ Oral history is distinctive, reproducing the exact words spoken, rather than reworking them in a written text.¹²⁴ Such history reveals the feelings and biases of those interviewed, which has the potential to enhance the richness of the history of a subject. Using oral history provides knowledge of a subject that incorporates both the memory of an event and the reflections of the interviewee on that event.¹²⁵ Written records of an event do not do this so well.¹²⁶

However, for some researchers, the disadvantages of oral history may outweigh the advantages, especially the subjectivity of information that relies on the memories of those speaking.¹²⁷ People's recollections of an event or subject may be biased and selective. 'What is forgotten may be as important as what is remembered.'¹²⁸ Oral history may be subjective within the context in which interviews take place. The interviewer may consciously or unconsciously apply bias when interpreting the interviews. There is also 'the inflexibility of sophisticated analytic techniques based on a coding of the transcripts (of the interviews)' meaning that the oral testimony itself was more important than the translation.¹²⁹ Some oral historians, particularly since the 1970s, have used the subjectivity of oral history, seen as one of its major disadvantages by empirical historians, as a strength. These historians place less emphasis on marginalised groups and their unrecognised importance in society. Instead they considered oral history as a means of better understanding the workings of society through cultural influences on memory, that is, 'oral history in the interpretive mode.'¹³⁰ Oral history thus gives researchers the opportunity to obtain information not available in archives.

¹²² Tosh with S. Lang (2006), p.310.

¹²³ T. Hammond and P. Sikka, 'Radicalizing Accounting History: The Potential of Oral History,' *Accounting, Auditing and Accountability Journal*, 9:3 (1996), pp.79-97. Tosh (2006), p.316.

¹²⁴ See, for example, P. Thompson, *The Voice of the Past: Oral History*, (Oxford, 1978).

¹²⁵ See also B. O'Dwyer, 'Qualitative Data Analysis: Illuminating a Process for Transforming a 'Messy' but 'Attractive' 'Nuisance,' in C. Humphrey and B. Lee (eds) *The Real Life Guide to Accounting Research: A Behing-the-scenes view of using qualitative research methods*, (Oxford, 2004), pp.391-407.

¹²⁶ See Baskerville (1994), pp. 14 and 15, for a discussion on memory and recall.

¹²⁷ Green and Troup, (1999), p.230; Fairburn (1999), p.200.

¹²⁸ R. Samuel and P. Thompson (eds), *The Myths We Live By*, (London & New York, 1990), quoted by Baskerville (1994), p.13.

¹²⁹ Baskerville (1994), p.13.

¹³⁰ M. Roper, *Oral History* (1996), quoted in Green and Troup (1999), p.232.

Today, in general, history researchers accept oral history as a valid form of accumulating knowledge about a subject, although it may have ‘a different ‘credibility’ from the empirical evidence of documentary sources.’¹³¹ Researchers therefore usually use oral history in combination with other techniques. Collins and Bloom, for example, explored oral history as a form of historical methodology in accounting, agreeing that it should not be the main source of information on a subject, but rather supplement written sources.¹³² In a study of the development of accounting standards, Collins and Bloom saw oral history as helping to develop background knowledge of accounting standard setting, increasing understanding of the problem solving process used in standard setting and explaining how a particular standard developed.¹³³

This thesis aims to contribute to further understanding standard setting as a professional activity and therefore, for the same reasons as Collins and Bloom outlined, oral history is an appropriate research technique to apply. Interviewing those who were the actual standard setters in the New Zealand Institute produced more information about the process of standard setting than the collections of board and committee minutes in the Institute’s archives. Participants in the process of standard setting were in a position to assess the strengths and weaknesses of that process. Importantly the interviewees were able to verify information obtained either from the Institute’s archives or from other interviewees or give further perspectives on standard setting events they were involved in.

As in this thesis, several researchers have used oral history to augment accounting archives.¹³⁴ In New Zealand, Emery *et al.* interviewed a number of self selected women who were professional accountants in Auckland in the 1940s and early 1950s.¹³⁵ Baskerville in her study of the Institute’s attempt to introduce Current Cost Accounting in the 1970s selected her interviewees, initially approaching ten members of the Institute who were either Presidents or members of the New Zealand Institute’s Accounting Research and Standards Board during the 1970s. Both studies

¹³¹ Green and Troup (1999), p236.

¹³² M. Collins and R. Bloom, ‘The Role of Oral History in Accounting,’ *Accounting, Auditing and Accountability Journal*, 4:4 (1991), pp.23-31.

¹³³ Collins and Bloom (1991), p.23.

¹³⁴ D. Mathews, ‘Oral History, Accounting History and an Interview with Sir John Greenside,’ *Accounting Business and Financial History*, 10:1 (2000), pp.57-83; C.A. McKeen and A.J. Richardson, ‘Education, Employment and Certification: An Oral History of the Entry of Women into the Canadian Accounting Profession,’ *Business and Economic History*, 27:2 (1998), pp.500-521.

¹³⁵ Emery, Hooks and Stewart (2002).

commented on a limitation of interviewing only a few of those involved in the events under study, while accepting that there was some compensation in the richness of the information gleaned from the interviewees. In this thesis, the information gathered from those interviewed promises interesting future study of particular aspects of the history of standard setting in New Zealand, particularly the contribution of individuals to the Institute's success as a standard setter.

Archival history may have similar limitations as oral history, for using narrative or interpretation may itself be subjective as facts are limited to information that has survived through time.¹³⁶ Even archival historians may be subjective as they select from the facts available, judging which are relevant. However, used together, archival and oral histories allow a recreation and interpretation of the past through description, narrative and analysis.¹³⁷ Description, telling the story of the past, presents the facts, while narrative relays the story of the past in a comprehensible manner. Analysis interprets the story, examining direct and indirect causes and consequences of events.

A balance must be struck between narrative and interpretation. Narrative may be subjective and selective but an emphasis on interpretation may produce 'intellectual clarity but loss of historical immediacy.'¹³⁸ Description, narration and analysis are elements in authentic historical studies and used together in this thesis. Matching information from different sources of evidence, as in this thesis, provided greater accuracy and justifies the argument.

Sources

The primary sources for this thesis incorporate archival and oral research. Much of the information analysed in this thesis has come from the archives in the Wellington based Head Office of the New Zealand Institute of Chartered Accountants and the Institute's journal, the *Chartered Accountants' Journal*.¹³⁹ The archives in the Institute hold the minutes and some agenda and background papers of the Institute's Council, Boards and Committees associated with standard setting. These are neither complete nor easily accessible but the information contained within the archives

¹³⁶ Previts, Parker and Coffman, (1990).

¹³⁷ Tosh (2006), p.147.

¹³⁸ M.J.R. Gaffikin, 'History is Dead: Long Live History,' *Critical Perspectives on Accounting*, 9:6 (1998), p.638. Tosh (2006), p.156.

¹³⁹ *The Chartered Accountants' Journal* was called *The Accountants' Journal* from its inception in 1922 until 1994.

accessed for this thesis were confirmed by comparing minutes and other papers with the summaries and reports of meetings printed in the *Journal* and with the information given by those interviewed. In effect, studying the Institute's archives was an exercise in traditional accounting history research. So too was the study of the Institute's journals, which contained reports of meetings and decisions on standard setting taken by the Institute as well as the Institute's submissions to various government enquiries. Other primary sources included Parliamentary papers and reports from legal institutions, such as the Auckland District Law Society. Oral history is used in this thesis to discover the attitudes and reflections of some of the members of the Institute involved in the development of accounting standards in New Zealand, and, as mentioned above, to provide supporting evidence or confirmation of information in the Institute's archives. The oral history suggested by Hammond and Sikka advocated the use of oral interviews in studying accounting history by proposing a study of those affected by accounting decisions rather than the decision-makers.¹⁴⁰

This thesis focuses instead on decision-makers, in particular the Chairs of the Institute's standard setting and research committees and their sub committees, because in their position they would have a more general view of the work of their committee than ordinary members. Over the decades from 1950, 19 members of the Institute were Chairs of standard setting committees and sub committees (Table 1). Five of the 19 Chairs, J. Hagen, E. Hickey, D. Trow, T. van Zijl, and J. Perry, were available for interviewing. To augment the stories from these interviewees, and gain further information, other members of the various boards and committees who were available were interviewed: M. Bradbury, S. Todd, I. Ball, D. Macdonald, K. Simpkins, F. Devonport, D. Emanuel and A. MacKenzie.¹⁴¹

The years these interviewees were involved in standard setting overlap (Table 2), thus providing a continuous history of the New Zealand Institute's role in setting accounting standards from the 1960s and allowing verification of interviewees' recollection of events. The personal interviews were conducted in Christchurch, Wellington and Auckland in June and July 2009, most usually at the place of work of the interviewee. F. Devonport was interviewed at his home and J. Perry was interviewed in September at her house.

¹⁴⁰ Hammond and Sikka (1996).

¹⁴¹ See Appendix L for a summary of the interviewees' years of involvement in standard setting. Note: Although a member of the Institute, A. McKenzie was an employee of the Institute who assisted the standard setting boards.

Table 1: Chairs of New Zealand Institute of Chartered Accountants Standard Setting Boards and Committees¹⁴²

Source: *Annual Reports 1979-1990*

<u>Committee</u>	<u>Committee Chairs</u>
Accounting Practice and Procedure Committee (APPC) 1950-1960	H.E. Strickett 1950, 1952-1958 W.R. Chapman 1951 R.G. Compton 1959-1960
Board of Research and Publications (BRAP) 1961-1978	A.W. Graham 1961-1967 W.H. Morgan 1968-1974 R.C. Pope 1975-1978
Accounting Research and Standards Board (ARSB) 1979-1990	P.M. McCaw 1979-1982 A.N. Frankham 1983-1984 J.C. Hagen 1985-1988 M.J. Hill 1989-1990
ARSB Financial Accounting Subcommittee	R.A. Anderson 1979-1982 J.C. Hagen 1983-1984 M.J. Hill 1985-1988 E.M. Hickey 1989-1990
ARSB Research Subcommittee	R.W. Hopkins 1982 D.G. Trow 1983-1986 C.H. Notley 1987-1990
Financial Reporting Standards Board (FRSB) 1991-	M.J. Hill 1991-1995 E.M. Hickey 1996-2001 T. van Zijl 2002-2003 J.M. Perry 2004-2010
FRSB Financial Reporting Committee1	W. Hunt 1992-1997
FRSB Financial Reporting Committee2	J.M. Perry 1992-1997

In Wellington D. Trow, T. van Zijl, D. Macdonald and K. Simpkins were interviewed at Victoria University of Wellington. In Auckland, J. Hagen and S. Todd were interviewed at their offices; E. Hickey and D. Emanuel were interviewed at the University of Auckland; M. Bradbury and J. Perry were interviewed at their homes. In

¹⁴² See Appendices F-I.

August I. Ball and A. Mackenzie were interviewed by telephone from their residence in the United States.

Table 2: Decades involved in standard setting

Source: *Annual Reports* 1968-2010

<u>1960s</u>	<u>1970s</u>	<u>1980s</u>	<u>1990s</u>	<u>2000s</u>
F. Devonport	I. Ball	I. Ball	I. Ball	M. Bradbury
D. Trow	F. Devonport	M. Bradbury	M. Bradbury	E.M. Hickey
	D. Emanuel	F. Devonport	F. Devonport	J. Perry
	J.C. Hagen	D. Emanuel	E.M. Hickey	K. Simpkins
	D. Trow	J.C. Hagen	J. Perry	S. Todd
		E.M. Hickey	K. Simpkins	T. van Zijl
		D. Macdonald	S. Todd	
		D. Trow	T. van Zijl	
		T. van Zijl		

Each interview lasted about one hour. Prior to the interview the interviewees were sent a list of questions (Appendix M). The questions were structured to provide a starting point for the interview. Further information was elicited as the interviewees remembered additional events. All the interviews were recorded on an Olympus digital voice recorder, WS-110/WS-210S. The interviews were transcribed and a copy of the transcription sent to each interviewee for checking.¹⁴³

The Institute's journal also provided secondary material for this thesis. Many members of the Institute used the *Journal* to discuss their views on standard setting as the *Journal* was the official organ of communication of the Institute, even though at first members purchased the *Journal* independently of their subscription.¹⁴⁴ The

¹⁴³ The interviewees have consented to the digital recording of their interviews being sent to the New Zealand Institute and made available for research.

¹⁴⁴ The aims of the Society in setting up the *Journal* make it clear that Council saw the *Journal* becoming '...an essential part of each member's reference library.' Source: *The Accountants' Journal* 1:1 (1922), p1. The Society established the *Journal* because it was dissatisfied with both the *Mercantile Gazette*, which it had been using as a means to communicate with Society members and the unsuccessful attempt by some members of the Society to produce a magazine, *Accounting and Commerce*.

As noted earlier, the Institute's journal was *The Accountants' Journal* from 1922-1993, after which it became *The Chartered Accountants' Journal*. In this thesis, the journal is referred to by its full name or as the *Journal*.

Journal was also used to publish the deliberations of the predecessor accounting bodies of the Institute, the Incorporated Institute and the Association of Accountants' and Auditors, such as reports from their annual meetings. The *Journal* provided readers with information about what was happening in the profession both here in New Zealand and overseas by reprinting articles from accounting associations overseas. Therefore, the *Journal* was a useful source for analysing the attitude of the accounting profession in New Zealand towards the issue of best practice. Other secondary sources included the many journals published in accounting and accounting history.

Conclusion

The first section of this chapter discussed the relationship of accounting history to the disciplines of accounting and history and summarised the literature related to accounting as a profession and standard setting in accounting. The second section of this chapter outlined the methodology used in this thesis. This chapter validates this thesis by placing it in the context of accounting history literature and shows how it contributes to the literature and addresses the research questions. The thesis provides a new study on the relationship of accounting standard setting to accounting as a profession by examining the role of the New Zealand Institute in the history of standard setting in New Zealand and placing this history within a theoretical framework, as proposed by Larson.

The review of the literature showed that much of the research to date in accounting history is on specific aspects of accounting events and activities. Studies on standard setting include Lee's explanation of the motives of the profession, Allen's exploration of the profession's ability to dominate standard setting and Hoskin and Macve's examination of the relationship between the profession and interested groups in external financial reporting.¹⁴⁵ There is no study of the role of an accounting association as standard setter, nor is there an exploration of a possible link between standard setting and professionalisation. Individual standard setting bodies have been studied but there has yet to be a detailed study of one accounting organisation and its continuing role in standard setting. This thesis aims to fill this gap by describing the history of the New Zealand Institute as standard setter and answer why and how the

¹⁴⁵ Lee (1995); Allen (1991); Hoskin and Macve (1994).

Institute undertook this accounting service. In addition, through this history, the thesis investigates whether there is a link between standard setting and the professionalisation of accounting. To do so, this thesis uses an interactionist approach, following the work of researchers such as Lee and West and their studies of the involvement of the profession in standard setting.

The second section in this chapter discusses the historical methodologies used in this thesis. The two methods used, archival history and oral history, give a robust and verifiable set of data that allows an examination of the role of the New Zealand Institute as standard setter. This thesis is not the first study of standard setting to use these methods. Zeff used archival history and interviews in his study of the early decades of standard setting in the Institute. As Zeff did in his study, so this history begins in the early decades of the Institute, before the first accounting standards were drafted, when ideas of standardising external financial reports were considered topics for research and discussion. The archives of the New Zealand Institute, augmented by the recollections of some of the Institute's standard setters, provide the information for the case study to be presented as an historical narrative of the history of standard setting in New Zealand.

This thesis contributes to the literature on standard setting in its use of the case study to test the hypothesis, that standard setting is one means of professionalisation for accountants. In doing so, the thesis provides a structured exploration of the motivations and activities of the accounting profession as standard setter. The thesis is also a response to calls for interdisciplinary cooperation and research, aiming to develop accounting history as an interdisciplinary area by applying research methods used in history and the social sciences. By adopting an historical approach to the accounting profession's role as standard setter the thesis seeks to provide new insights into a high profile area of accounting.

The next three chapters investigate the hypothesis through a study of why and how the accounting profession became a standard setter. Chapter two defines accounting as a profession, discusses the process of professionalisation and outlines Larson's model of professional behaviour. Chapters three and four explain why regulating external financial reporting was important enough to be used in professionalisation and how the profession's development of the standard setting process emphasises that importance.

Chapter Two: The Professionalisation of Accounting

Introduction

Before beginning a study of standard setting in New Zealand it is necessary to assess the origins and major characteristics of the accounting profession. This chapter also introduces Larson's model of professional behaviour that is used as the theoretical framework for this thesis. A fundamental element in Larson's model is the action of the professional association. Accordingly, before applying Larson's model, the second part of this chapter introduces the New Zealand Institute, its foundation and some factors particular to the Institute that have influenced the history of standard setting.

Accounting as a profession

The motivations for the accounting profession to become a standard setter lie in the origins of the profession. First in Britain and then her colonies, the roots of the professionalisation of occupations lay in an expanding middle class that emerged with the industrial revolution determined to achieve and maintain status and wealth. During the nineteenth century many men in this class took the opportunity to enhance their influence in society, creating and fulfilling increasing demand for their services as new professionals.¹ Professionals emphasised their role of providing independent and ethical service to the community, receiving in return society's recognition of their skills, expertise and importance.² One defining characteristic of the professions was the emergence of professional organisations. These associations were integral to the success of professions acquiring and maintaining professional status as they acted on behalf of members, controlling the delivery of professional services. Accounting was one such occupation, creating professional accounting associations that by the end of the nineteenth century, among other activities, determined entry to the profession and negotiated with governments for legislative backing for exclusive rights to deliver particular accounting services.

From the eighteenth century in Britain a professional occupation was distinguished by the particular knowledge required to carry out the work of that

¹ E. Freidson, *Professional Powers: A Study of the Institutionalization of Formal Knowledge*, (Chicago and London, 1986), p.32.

² O'Day (2000), pp. 5, 15 and 257.

occupation, the education necessary to acquire that knowledge and the members of the professional occupation associating together in an organised way.³

The early professions differentiated themselves from other occupations by establishing...a regular system of professional education, with a recognized body of knowledge and acceptable standards of qualification, preferably enforceable at law...(as well as) a voluntary professional association to provide advocacy and discipline.⁴

Usually the service was necessary because with the complexity of the knowledge and the information required to carry out the service, consumers increasingly were unable to perform the service themselves. In economic supply and demand terms, consumers of goods and services demanded and trusted the professional to exercise judgment with competence and integrity, supplying what they could not. The professions created later in the nineteenth century, among them accounting, were to acquire these characteristics, which in part linked social status to acting in the public interest, a point not missed by those in the emerging middle class as they aspired to higher social status.⁵

To be able to offer this quality of service, a member of a profession required training and a higher level of tuition than in many occupations. The body of knowledge a member of a profession learned was specific to that profession, as usually were the educational qualifications necessary to acquire that knowledge. In this way, professionals achieved a standard of learning and expertise that gave society confidence in the ability of the professionals to know what they were doing.

Also important was the attitude and behaviour of the professional towards clients and society. A higher standard of behaviour was demanded of a professional than those in other occupations. Society expected a professional to act in an ethical manner when exercising judgement and providing services. Members of a profession needed to acknowledge their responsibility towards their communities. T. Lee recognised this expectation in his definition of a profession.

[Professions are]...occupations organized in institutional form, whose practitioners are committed explicitly to serve the public interest, and who offer client services related directly to an intellectually-based body of knowledge.⁶

³ O'Day (2000), p.4; R. Schultze, 'What Does it Mean to be a Self-governing Regulated Profession?' *Journal of Property Tax Assessment and Administration*, 4:3 (2007), p.41.

⁴ W.J. Reader, *Professional Men: The Rise of the Professional Classes in Nineteenth Century England*, (New York, 1966), p.24.

⁵ Ibid, p.43.

⁶ Lee (1996), p.169.

Behaving ethically linked directly to the status seeking aims of the middle class. In return for social standing and respect, a professional acknowledged a duty to act for the common good.⁷ This is a conventional and functionalist view of professions, arising from the service ethos of the original professions where the members of a profession served the community and played a prominent role in ensuring the good of society. Professionals acknowledged they had responsibilities to both clients and society, but they could experience conflict between their obligations towards society and their responsibilities to clients.⁸ In these circumstances society expected professionals to consider the public interest.⁹ The dilemma of which responsibility should take precedence has not been resolved, but remains pertinent in explaining differences between stated and underlying motivations for professional action, such as public versus self interest. Notwithstanding these dilemmas, professionals became respected members of their communities and they were highly trained in the specialised knowledge of their profession, working collectively to achieve their economic and social objectives.¹⁰

Accounting became a profession in part because of industrialisation, which gave some of those doing accounting work the opportunity to become professionals. As in other professions created in the nineteenth century, professional accountants established accounting associations that, through legislation and regulation, controlled access to membership of the accounting profession and determined who could deliver accounting services that helped entities function successfully. In post-industrial economies entities became more complex and with them, so too did the nature of accounting information. Accounting information is an essential element in entity decision-making.¹¹ Entities vary in size and operation, but they all require accounting information that is best supplied by those skilled and experienced in defining and explaining that information. Originally, accounting was the province of finance clerks and bookkeepers.¹² At this level accounting work was more general and elementary

⁷ H. Benson 'The Professions and the Community,' *The Australian Accountant*, 51:4 (1981), pp.239-244.

⁸ Carr-Saunders and Wilson (1933).

⁹ R.G. Walker (1987).

¹⁰ T. Johnson, *Professions and Power*, (London, 1972).

¹¹ Several articles have been written on the beginnings of accounting in Babylonian times. See, for example, S. Carmona and M. Ezzamel, 'Ancient Accounting,' in Edwards and Walker (2009), pp.73-94.

¹² T.A. Lee, *The Influence of the Individual in the Professionalisation of Accountancy. The Case of Richard Brown and the Society of Accountants in Edinburgh 1892-6*, (Edinburgh, 1997), p.68.

and knowledge to do the work easily acquired. Bookkeepers were employed to maintain the accounts within a firm. These workers were essentially employees, providing a necessary service but one that was adjunct to the main operation of a business. Bookkeepers did not usually provide advice to their employers as part of their employment. They also did not work with other bookkeepers to advance the knowledge of, or the foundations for, effective accounting information.

During the nineteenth century, accounting work became increasingly complex although at first it remained largely clerical in nature. With industrialisation, large entities became more common. There was an increasing need for accounting information and for the verification, by audit, of that information. Rapid economic changes led to problems as entity owners sometimes struggled to cope with these changes. In Britain, insurance claims and bankruptcy problems became more common and demand arose for people who could help entrepreneurs to run their businesses.¹³ In such an atmosphere, individuals were encouraged to specialise and develop niche occupations.¹⁴ Accounting was one area of employment that lent itself to the creation of this highly specialised work. Where there were established privately owned entities there was a market for accountants who could offer expert advice. The market grew during the twentieth century and the areas where accountants offered professional advice diversified, from tax and auditing to specialised areas such as management consulting and forensic accounting.¹⁵

In Britain, the first professional accountants came from several social areas. Many were from the lower middle class, but a few were from the upper levels of society. In Scotland, for example, some were religious non-conformists, the recipients of a practical education that included bookkeeping. They were of modest means and lived by the middle class values of hard work, honesty and prudence.¹⁶ However, in the first accounting organisation, the Edinburgh Society of Accountants, which was established in 1853, several members were also connected with the landed gentry.¹⁷ In Canada the new professional accountants were first based in Ontario, Anglican by religion, active in local politics and business and to some extent relatively less

¹³ Lee (1996), p.175.

¹⁴ S. Westcott and R. Seiler, *Women in the Accounting Profession*, (New York, 1986), p.221.

¹⁵ Westcott and Seiler (1986), p.222.

¹⁶ K. Shackleton, 'Gender Segregation in Scottish Chartered Accountancy: The Deployment of Male Concerns About the Admission of Women, 1900-25', *Accounting, Business and Financial History*, 9:1 (1999), p.138.

¹⁷ Macdonald (1995).

educated than many of the business people they were dealing with.¹⁸ The American accounting profession was in large measure created by British accountants moving to the United States towards the end of the nineteenth century to help local accountants cope with the demands of already large private sector corporations.¹⁹

In Melbourne, the men who were later to be recognised as the first professional accountants in Australia were already established entity owners. They began their working lives as business people, not as specialists in accounting. They did not have accounting qualifications but did accounting related work when operating their businesses. These first professional accountants were some way through their working lives before they began to specialise in accounting work and they encouraged their sons to practise accounting. As in Scotland, these men were Protestant and relatively less educated than their peers but they were keen to give their sons the opportunities appropriate to their desired status in society.²⁰

In New Zealand there does not appear to be any research on the origins of those who formed the first associations of professional accountants. Given the fact that most New Zealanders who migrated here in the nineteenth century came from Britain, sometimes via the Australian colonies, it is reasonable to assume that their origins were similar to those settling in Australia. The first accounting associations in New Zealand had links with Australian, especially Victorian, accounting associations from the beginning.²¹

The origins of those in the early Australian accounting associations have been well researched and the British connection established. An early study by Johnson and Caygill attributed this link to the relationship between Britain and her colonies which was confirmed in later studies by Carnegie and Parker, Chua and Poullaos, and Parker when they observed the significance of this relationship for the first Australian accountants.²² The relationship was important for Australian and New Zealand

¹⁸ Richardson (2000), p.94.

¹⁹ Carey (1969).

²⁰ J.R. Edwards, G.D. Carnegie and J.H. Cauberg, 'The Incorporated Institute of Accountants, Victoria, 1886: a study of founders' background,' in *The Development of Accounting in an International Context. A Festschrift in Honour of R.H. Parker*, T.E. Cooke and C.W. Nobes (eds), (London and New York, 1997), p.49.

²¹ Graham (1960). See also the next section in this chapter, The Accounting Profession in New Zealand.

²² T.J. Johnson and M. Caygill, 'The Development of Accountancy Links in the Commonwealth,' *Accounting and Business Research*, 1:2 (1971), pp.155-173; Carnegie (1993); G.D. Carnegie and R.H. Parker, 'Accountants and Empire: The Case of Co-membership of Australian and British Accountancy Bodies, 1885-1914,' *Accounting, Business and Financial History* 9:1 (1999); Chua and Poullaos (1998)

accountants not just because the economies of the Australian States and New Zealand were dependent on trade with Britain but also because British accounting practices became Australian, and New Zealand, accounting practices. This link, with its Imperial origins, was evident in the New Zealand Institute. Throughout the twentieth century the Institute printed British accounting articles in its journal and accounting scholarship winners usually went to British firms to further their accounting education.²³

Accountants in the nineteenth century had close links with other groups in the business world, not just entity owners, but also other occupations such as insurance workers and lawyers. In part this was because the first professional accountants dealt with business bankruptcies and insolvencies.²⁴ In some cases these people were doing work that today would be performed by other professional occupations.²⁵ This may help explain the origins of the accounting profession, although even that is not certain. Burrage suggested that accounting became a profession because lawyers shifted their focus. The British legal profession gained status by concentrating on a narrower area of work during the nineteenth century, which helped the new accounting profession establish itself in the financial areas abandoned by the lawyers.²⁶ Stewart, on the other hand, when studying the beginnings of the Scottish accounting profession, proposed the reverse. He suggested that the professionalisation of accounting was a defensive response by accountants to proposed legislation that would give lawyers a monopoly in bankruptcy work.²⁷ Certainly the new professional accountants provided a mix of accounting and non-accounting services, dealing with insurance and legal matters related to the managing and operating of businesses. It was not until later in the nineteenth century that the new profession adopted auditing as a purely accounting service.²⁸

and 2002); R.H. Parker, 'Importing and Exporting Accounting: The British Experience,' in *International Pressures for Accounting Change*, A. Hopwood (ed) (London, 1989); R.H. Parker, 'Naming and Branding: accountants and accounting bodies in the British Empire and Commonwealth,' *Accounting History* 10:1 (2005), pp.7-46.

²³ Graham (1960).

²⁴ Lee (1996), p.175. See also Lee (2000).

²⁵ R.H. Parker, 'Accounting on the Periphery: The Profession in Exeter 1939,' *Accounting, Business and Financial History*, 14:1 (2004), p.78.

²⁶ M. Burrage, 'Introduction: the professions in sociology and history,' in *The Formation of Professions: knowledge, state and strategy*, M. Burrage and R. Torstendahl (eds), (London, 1990).

²⁷ J.C. Stewart, 'The Emergent Professionals,' *The Accountant's Magazine* 129:825 (1975), pp.113-116.

²⁸ Parker (2004), p.76.

The links between accounting and the law were strong. In Ireland, for example, the Irish accounting profession developed directly from the legal profession and throughout the nineteenth century in Ireland there was a ‘...dependence of accountants on the legal profession...’²⁹ The connection between accountants and lawyers was obvious at the first annual meeting of the Irish Institute of Chartered Accountants, where the dinner that followed the meeting was recorded as being attended by a large number of lawyers.³⁰ As elsewhere, establishing an association such as the Irish Institute of Chartered Accountants was an important step for the fledgling accounting profession. The Institute was a sign that the work Irish accountants were doing was sufficiently different to require clients to see the distinction from the legal profession and necessary to enable accountants to work collectively to their advantage and the benefit of the community.

As accounting and the law continued to professionalise, the links between the two occupations became weaker and differences greater. In England, following lobbying from some accounting organisations, legislation such as the 1869 Bankruptcy Act detailed the work accountants and lawyers were to do and defined the separation of duties of the two groups.³¹ Today the differences between the accounting and legal professions extend from the services the two professions perform to the way these professionals operate. For example, a greater proportion of lawyers than accountants are in public practice. Although there are these differences, legal knowledge remains relevant for accounting work. Aspiring accountants study papers that include company law, commercial law and the law affecting trusts. However, lawyers do not usually study accounting.

This separation of occupations was a necessary part of the professionalisation process. Occupations needed to distinguish their services from that of other occupations and professions, requiring those in a new profession to work together in a process that created boundaries clearly defining the work that only they could do.

Professionalisation...[is the] process by which an organized occupation usually but not always by virtue of making a claim to special esoteric competence and to concern for the quality of its

²⁹ Sugarman (1995) quoted in Parker (2004), p.83; Robinson (1964), p.90. See also M. Annisette and P. O’Regan, ‘Joined for the common purpose: the establishment of the Institute of Chartered Accountants in Ireland as an All-Ireland Institution,’ *Qualitative Research in Accounting and Management*, 4:1 (2007), pp. 4-25 and P. O’Regan, ‘Elevating the profession: social closure and the development of the Institute of Chartered Accountants in Ireland, 1888-1909,’ *Accounting, Business and Financial History* 18:1 (2008), pp.35-59.

³⁰ Ibid, p.90.

³¹ Lee (1996), p.175.

work and its benefits to society, obtains the exclusive right to perform a particular kind of work, control training for and access to it, and control the right of determining and evaluating the way the work is performed (cf Vollmer and Mills 1966).³²

Vollmer and Mills' description of how professionalisation occurred emphasised action. Those aspiring to be professionals acted collectively through professional associations to acquire respectability in their communities by earning the trust of clients and others demanding their services. These actions were explicable through interactionist studies of professionalisation; an approach used by Larson to explain professional behaviour.

Larson's Model of Professional Behaviour

Larson followed the ideas of Weber and Foucault in studying the interaction of occupational groups as they became professional. Weber and Foucault had outlined the monopolistic practices of particular groups in society as they competed to achieve dominance in their areas of economic activity.³³ Freidson examined how these groups maintained this dominance and power in their fields of work.³⁴

Larson described the actions of those in an occupation undergoing professionalisation, noting, as had Freidson and others, the deliberate actions of groups to acquire and maintain dominance in their work. In distinguishing themselves from related occupations, Larson proposed that the professions used these actions as part of their professional projects, such as acquiring monopoly practice in their area of service and hence gaining social standing.³⁵ For Freidson, Larson and others, professional projects included controlling the education and learning necessary to perform their services, as well as defining the qualifications gained from that learning and restricting entry to the profession to those with the specified qualifications. The new professions also applied social exclusion, denying entry to those they considered could endanger their new status.³⁶ Macdonald, applying Larson's model to a number of professions, including accounting, called the heart of the professional project the attempts of a group to derive their power from control of knowledge, which was, he

³² E. Freidson in *The Professions and their Prospects*, E. Freidson (ed.), (Beverly Hills and London, 1973), p.22.

³³ Foucault (1972).

³⁴ Freidson (1973).

³⁵ Larson (1977), p.50; West (2003), p.40. West referred to this attribute of professions as 'elevated occupational authority'.

³⁶ Freidson (1986), p.63.

noted, an internal feature of a professional project as it lay within the jurisdiction of the profession. Thus, qualifications and social closure were examples of the internal features of professional projects. Other actions the profession could command included the economic power that came from market control, restricting the number of practitioners and protecting areas of work. These activities were internal features of the professional project best enforced through the collective action of members in a professional association. To succeed, the group needed to be cohesive and that was achieved by the group acting in concert through professional associations. Macdonald summarised Larson's model, identifying four characteristics of an occupation that made the professional project: the acquisition of power from knowledge, the collective actions of groups, ongoing action to maintain monopoly and a profession-state relationship.³⁷

The first characteristic, the acquisition of power from knowledge, recognises the control a profession may exercise over a professional activity because it has the capacity to undertake that activity. Among the studies of the accounting profession's use of power from knowledge, Potter and Young have shown how the profession used language to control access to and the perception of accounting knowledge.³⁸

Accounting standard setting requires knowledge. The question is whether the accounting profession achieved power from this knowledge and if so, over whom. Knowledge in standard setting is the ability to understand and define the elements in external financial reports as well as the level of specialist knowledge needed to draft standards that allow standardisation of external financial reports that comply with current legislation. The use of specialised language in accounting standards may, for example, enhance the significance of standard setting and help the profession to retain control of the process. That the accounting profession acted to achieve these aspects of specialist knowledge in standard setting is, as Richardson and Kilfoyle noted, particularly apparent in the efforts of the accounting profession to provide a theoretical base to accounting standards, such as the development of conceptual frameworks and financial accounting theory.³⁹ How successful the profession was in doing so, and therefore how much control the profession had over the public's

³⁷ Macdonald (1995).

³⁸ Potter (1999); Young (2003).

³⁹ Richardson and Kilfoyle (2009).

perception of accounting as a profession through power from knowledge is open to debate.

Access to the knowledge needed to become a professional accountant became more difficult once the accounting organisations were established. This knowledge was formally identified and organised by the associations and acquired by the professional accountant through examinations, life-long learning and professional development. Some researchers question the extent to which accounting knowledge was actually specialised and therefore a legitimate characteristic for accountants to use to claim they were professionals. West, for example, pointed out the continuing problem the profession had in developing an accepted set of accounting principles and conceptual frameworks in standard setting.⁴⁰ Hines observed that the profession claimed it had such knowledge, even when there was no generally agreed framework and Young also saw the profession using language to persuade others of its legitimacy as standard setter.⁴¹ West concluded that the problem was the knowledge required in standard setting could not be placed as simply as occurred in other professional disciplines.⁴² In part this was a consequence of difficulties in the language in the standards.

As early as 1980, Stamp emphasised the importance of communication in standard setting when he observed that accounting was a language conveying financial information.⁴³ But, as West noted, the profession has had difficulty providing a level of communication in standards that could produce external financial reports that gave general satisfaction to report users. Communication difficulties arose from questioning within the profession as well as differing interpretations of the standards by preparers of the external financial reports. As discussed in chapters three and four, the profession has made many attempts to define accounting principles and terminology and produce a generally accepted set of definitions. Parker attributed this problem to the nineteenth century origins of accounting language as the profession has had to adapt language to complex and global twentieth century entity activities.⁴⁴ As Evans observed, accounting language is open to interpretation by users and hearers

⁴⁰ West (1996).

⁴¹ Hines (1989); Young (2003).

⁴² West (1996), p.92.

⁴³ Stamp (1980), p.40.

⁴⁴ Parker (1994).

because language is determined by the social context within which it arises and is place and time specific.⁴⁵

With these difficulties the profession could choose to focus on what it was able to control. West pointed out that one problem in using accounting knowledge as a control mechanism was that the profession would forget what the standards were for. He questioned the fitness for use of some standards because the profession was more focused on using these standards as a means of maintaining its professional reputation than providing clear and consistent guidelines for preparers and users of external financial reports.⁴⁶ The profession's efforts to use standard setting in this way may explain why the nature of accounting standards changed and standards became increasingly regulatory.

These difficulties have not stopped the profession maximising its use of accounting knowledge as part of its image as a profession.⁴⁷ Through legislation and regulation, accounting associations succeeded in controlling who could use the knowledge, at the same time highlighting the critical role of the accounting associations in the professionalisation process. In New Zealand, for example, the auditors of the external financial reports of entities listed on the stock exchange had to be chartered accountants, and hence members of the New Zealand Institute. But the questionable usefulness of standard setting in giving the accounting profession power from knowledge as part of its professional project may account for the reluctance of the profession to become the standard setter in the early decades of the twentieth century. The profession at that time was using more successful means of professionalisation such as who were the early accounting professionals, whom they knew, and changes in legislation and economic and social conditions in the late nineteenth and early twentieth centuries.⁴⁸ However, once the profession agreed to help regulate external financial reports, and as the efforts to develop financial accounting theory indicate, standard setting became a professional activity.

The second characteristic, collective actions of groups, accounts for the role of professional associations in acting on behalf of members to ensure dominance in delivering an accounting service and hence professional status. Lee observed this link

⁴⁵ Evans (2010).

⁴⁶ West (1996), p.6.

⁴⁷ T.A. Lee, 'A Review Essay: Professional Foundations and Theories of Professional Behaviour,' *The Accounting Historians Journal* 18:2 (1991), p.193.

⁴⁸ *Ibid*, p.95.

in his study of standard setting in the United Kingdom and United States.⁴⁹ The link is also observable in New Zealand, such as the years when the New Zealand Institute was the only organisation in New Zealand drafting standards. New Zealand Institute members have also dominated membership of the only state standard authorising body. Overseas, no one accounting association was solely responsible for standard setting, as in New Zealand, but that has not stopped the collective actions of accounting associations in those countries ensuring dominance of the standard setting process. R.G. Walker observed this in Australia as did S.P Walker in the United Kingdom.⁵⁰

The third characteristic, ongoing action to maintain monopoly, implies that professions must continually persuade society that they are the occupational group to deliver particular services. As the accounting profession has found, professional reputation is fragile, especially at times of entity collapses and the public's loss of trust in the reliability of external financial reports. Larson's model accounts for this characteristic in the need for professions to monitor and act to maintain monopoly of the services that help give them their professional status. Macdonald confirmed this, emphasising the importance for professions to persist in their efforts to maintain monopoly of service.⁵¹ In standard setting, Lee noted how the accounting profession in the United Kingdom and the United States acted to continue its dominance.⁵² Allen in his study of Australian accounting observed that professional dominance was not fixed and that the profession was in a continuous process of negotiating its professional status, with the state as with other groups in society.⁵³ Street observed similar efforts in the actions of international accounting organisations.⁵⁴

The fourth characteristic, the profession-state relationship, is a prominent feature in professional behaviour and several studies highlight this relationship in several areas of accounting. Chua and Poullaos, for example, discuss the attempts of the Victorian accounting profession to obtain a royal charter as does Walker in his survey of the first English professional associations.⁵⁵ From very early in their histories the professional associations were negotiating with the state and seeking

⁴⁹ Lee (1995).

⁵⁰ Walker (1987); Walker (1991 and 2004).

⁵¹ Macdonald (1995).

⁵² Lee (1995).

⁵³ Allen (1991).

⁵⁴ Street (2000 and 2005).

⁵⁵ Chua and Poullaos (1993); Walker (2004).

legislative authority to monopolise accounting services. As part of this professionalisation process, the professional organisations pressed their governments to legislate to give the organisations' members the exclusive rights to, and control of, the work of the profession. As an action performed outside the profession, Macdonald called obtaining legal backing for this control an external feature of the professional project.⁵⁶ Professional associations thus became the vehicle used by professionals in their bargaining with government.

Ultimately the relationship between a profession and the state was important for any successful move to professional status.⁵⁷ A profession needed more than society accepting its existence. To ensure exclusivity, a profession needed to be the only legally legitimate provider of its services, for which they required legal backing. The cooperation of the state was required for this, usually in the form of a charter or licence for the organisation. Such a charter often included exclusive use of work titles.⁵⁸ In its part of the 'regulative bargain' with the state, the profession defined and controlled the content and delivery of their services through careful recruitment and training, and monitored the behaviour of members through a code of ethics and enforcement of the code.⁵⁹ In this way, professional associations enabled a profession to achieve its self interest objectives. These measures led to higher income for the professional, because part of this income was 'rent', created from the contrived scarcity value of the service.⁶⁰ In this way, the members of the group benefited.⁶¹

Statutory support for a professional association also provided a level of confidence for the consumer. The internal measures, backed by the external measure allowed the consumer of professional services to trust the professional to deliver what was expected. Thus the professional could fulfil consumer demand allowing the professional associations to fulfil another purpose, that of public service. This was especially necessary as economies and professional knowledge became more complex. Consumers of professional services were often no longer in a position to assess the quality of the service they were demanding. They were reassured when

⁵⁶ Macdonald (1995), p.30.

⁵⁷ Macdonald (1995), p.33.

⁵⁸ Robinson (1964), p.190.

⁵⁹ D. Cooper, A. Lowe, A. Puxty, K. Robson and H. Wilmott, *Regulating the UK Accountancy Profession: episodes in the relation between the profession and the state*, paper presented at Economic and Social Research Council Conference on *Corporatism*, (London, 1988).

⁶⁰ Perkin (1989), p.7.

⁶¹ M. Seneviratne (1999), p.57.

dealing with someone who belonged to a recognised professional organisation, especially an association that had legislative support. The associations confirmed the competence of their members. Cooper *et al.* supported Allen's observation of the profession's interaction with the state. They saw the profession's negotiations with the state as a regulative bargain noting that, when successful, the professional association gained control of services while the state achieved indirect control of entities.⁶²

Although the New Zealand Institute did not have the same pressure to obtain a charter as did associations elsewhere, the Institute has had an increasingly close relationship with government bodies in recent decades.

Thus the four identifying characteristics in Larson's model of professional behaviour are present in events in standard setting in several countries, including New Zealand, but the importance of these elements in the professionalisation process is less evident in this discussion. The usefulness of Larson's model to understanding the professionalisation of accounting through standard setting requires a closer examination of the history of standard setting and this thesis provides that test in the case study of the New Zealand profession.

Larson's model, as expanded by Macdonald, is a useful theoretical framework to apply in this thesis to establish whether standard setting could be defined as a professional project. Macdonald has applied the model to accounting although not in standard setting. In his discussion Macdonald noted that 'accountants succeeded in achieving the objectives of the [professional] project.... [They had] a monopoly in auditing and a firm grip on taxation consultancy, insolvency...'.⁶³ Standard setting may be considered an accounting service as auditing is. Standard setting has several parallels with auditing, especially as seen in the history of standard setting in New Zealand, not the least among these being the monopolisation of the service by members of the New Zealand Institute, whether within the Institute's standard setting board or the government's statutory standard authorising board. The New Zealand Institute has drafted both accounting and auditing standards and had committees and boards dedicated not just to the drafting of these standards but to their application. Therefore Larson's model has been used to explain the actions of the accounting profession in auditing, and this thesis does the same for standard setting.

⁶² Cooper *at al.* (1988).

⁶³ Macdonald (1995), p.204.

The professional association

Accounting associations are the 'face' of a profession, for the associations are the means by which individual professionals act collectively for their own and for society's benefit.⁶⁴ The associations give credibility to members and allow the public to trust that members will provide the services demanded. As Freidson, Larson and others concluded, the professional association is critical to the success of a profession. Belonging to a professional association not only brought access to practising in the profession, but also the means to attaining the status that came from being a professional for it was the professional association that maintained the profession's relationships with other groups in society.⁶⁵ In this way, a profession gained social as well as economic power. These organisations, which were simultaneously a characteristic of a profession and a sign of the professionalisation of an occupation, acted on behalf of members, striving to gain independence for them so that the profession could be self regulating.⁶⁶

Society recognised a professional as someone capable of using independent judgement and performing specialised work that required familiarity with a particular set of knowledge not accessible to other members of society. Social status was important to the professional, who earned a relatively high level of income. In exchange for these benefits, society demanded competence, integrity and that the professional act in the public interest. The professional was expected to abide by a stated code of ethical behaviour as a member of a professional organisation. The creation of the professional organisation was a fundamental step in the process of professionalisation, enabling an occupational group to carry out its professional projects obtaining control of its economic activity to signal the quality of that service.

As a profession, the professional accounting associations dominated the way in which an individual accountant worked. The association became the means by which the accounting profession organised its affairs, and set out the rules for standards of work. The association provided direct guidance for members, including recommending the fees that members should charge clients. These measures helped

⁶⁴ Freidson (1986).

⁶⁵ The first step in the pursuit of the professional project. Source: K.M. Macdonald, 'A professional project- the case of accountancy' (1995), in *The History of Accounting: critical perspectives on business and management*, J.R. Edwards (ed.), *Professionalisation of Accounting*, Volume 4, (London and New York, 2000), p.44.

⁶⁶ Perkin (1989), pp.85 and 86. Perkin noted that there were other occupations that had non-qualifying associations representing salaried, employed professionals. For example, civil servants and teachers.

the individual accountant maintain a professional distance when carrying out accounting work. Although professional accountants retained independence and exercised judgement when offering accounting services they did not work alone, collaborating with other members of their association and depending on their colleagues in the accounting association for professional support and recognition.⁶⁷ In this way the accounting professional organisation gave a sense of belonging to individual accountants, supporting members and fostering comradeship. The association introduced members to new ideas and developments in accounting in other countries and provided training and ongoing professional development.

As the accounting profession became better established, the accounting associations acted on behalf of members negotiating with the state to obtain legislative support to restrict accounting practice to their members. Having legal support for monopolistic accounting practices was essential for the success of the accounting profession. When the associations gained legislative backing they were now in a position to ensure the quality of accounting services given to clients and also limit the numbers of those eligible to practise as qualified accountants.⁶⁸ The accounting professional association as ‘... a device for the institutionalisation of occupational difference and protecting market advantage’ controlled entry to the profession, whether directly, by having rules that excluded particular individuals or groups, such as women, or by restricting access to qualifying examinations and training.⁶⁹ The success of accounting associations in doing this is evident even in the New Zealand Institute where, as Baskerville and Emery *et al.* have observed, an association with no identifiable restriction to entry has a membership profile that does not match that of wider society.⁷⁰

Accounting history research from a critical perspective has highlighted the dominance of class and patriarchy in the accounting profession. Nineteenth century patriarchal attitudes explain why women were excluded from the professions, but women were not the only social groups denied access to the profession. Many men,

⁶⁷ O’Day (2000), p.8.

⁶⁸ Lee (1996), p.177. ‘It was a deliberate act publicly (in this case, Scotland in the 1850s) to separate chartered accountants from other individuals labelled as accountants, provide a basis for public confidence in the work of chartered accounts, and thereby stimulate demand for their accountancy services.’

⁶⁹ S.P. Walker, ‘The Genesis of Professional Organisation in English Accountancy,’ *Accounting, Organizations and Society*, 29:2 (2004), p.127. See also Parker (2004); Carnegie and Edwards (2001); Walker (2004); Carnegie (2009).

⁷⁰ Baskerville (2006); Emery *et al.* (2002).

who, because they belonged to the working class and lacked educational opportunities, were also not able to qualify for membership of accounting organisations.⁷¹ Parker in his study on accounting in Exeter in the first part of the twentieth century, for example, concluded that gender, class and financial status were all factors that largely determined whether an individual was able to become a professional accountant.⁷²

Within accounting itself the process of professionalisation produced a hierarchy of tasks. Certain accounting related activities became more important than others and it was the more specialised areas, such as tax advice, auditing and management consulting, which formed the basis of professional accounting. The less specialised tasks, that were more clerical in nature, remained outside the profession. Many small businesses employed staff to do these less specialised tasks, for example, bookkeeping, coding invoices and balancing financial registers. These employees were usually not qualified as professional accountants and they may not have studied any accounting related papers at secondary or tertiary education institutions. In the nineteenth century these non-professional accounting activities came to be increasingly occupied by women while the specialist areas remained the domain of males.⁷³ In part, these developments explain why the professional accountant at the beginning of the twentieth century was male and middle class. He was relatively wealthy and his work required learning and training.⁷⁴ In effect, the Victorian values of the founders of the accounting associations were reflected in the practices of the profession as the accounting associations developed and monitored accounting services.⁷⁵ Accounting was not the only profession dominated by middle class males. Other professions created in the nineteenth century were also male oriented and hierarchical.⁷⁶

⁷¹ C. Lehman, "'HerStory'" in *Accounting: The First Eighty Years*, *Accounting, Organizations and Society*, 17:3/4 (1992), p.281 and L.M. Kirkham, 'Integrating HERstory and HISStory in Accounting,' *Accounting, Organizations and Society*, 17:3/4 (1992), p.294.

⁷² Parker (2004), p.75.

⁷³ L.M. Kirkham and A. Loft, 'Gender and the Construction of the Professional Accountant,' *Accounting, Organizations and Society*, 18:6 (1993), p.513. See also C. Cooper and P. Taylor, 'From Taylorism to Ms Taylor: The Transformation of the Accounting Craft,' *Accounting, Organizations and Society*, 25:6 (2000), p.563.

⁷⁴ Reader (1966), p.199.

⁷⁵ E. Freidson, *Professional Powers: A Study of the Institutionalization of Formal Knowledge*, (Chicago and London, 1986), p.75.

⁷⁶ J.K. Ehrhart and B.R. Sandler, *Looking For More Than a Few Good Women in Traditional Male Fields, Project on the Status and Education of Women*, (Washington, 1987), p.6.

Applying Larson's model of professional behaviour, the actions of the associations may be seen as professional projects because they led to association members being accepted as professionals. These actions involved the professional associations negotiating with the state to ensure that some accounting tasks were restricted to their members, tasks for which the public acknowledged required superior knowledge and training. Through their actions the associations emphasised that they were earning the trust the public had in their members to supply accounting services. In return, the public gave the associations' members economic and social status. At this stage in the history of the accounting profession, during the late nineteenth and early twentieth centuries, these professional projects were practical and readily implemented with state support. That is, using Larson's characteristics from his model, accounting became a profession as accounting association members working collectively obtained monopoly of service and acquisition of power from accounting knowledge with state backing.

In English-speaking countries, from the middle of the nineteenth century until closer to midway through the twentieth century, a variety of accounting organisations came into being, amalgamated, split and dissolved as the process of professionalisation continued. Establishing accounting organisations was sometimes complicated. Often the creation of new accounting associations was a consequence of rivalry and disagreements within the accounting profession. In Scotland for example, in the latter part of the nineteenth century, two accounting organisations challenged the monopoly practice of chartered accountants in the Scottish Institute, the first professional accounting association.⁷⁷

Although there were internal disputes, the profession recognised that to achieve social standing, and receive government approval, the accounting bodies within a country must present a united front in their dealings with the rest of society and the profession has a history of associations merging to achieve this.⁷⁸ In Australia, for example, ten of the accounting associations combined at the beginning of the twentieth century to form The Australasian Corporation of Public Accountants. This

⁷⁷ S.P. Walker, 'The Defence of Professional Monopoly: Scottish Chartered Accountants and Satellites in the Accountancy Firmament 1854-1914,' *Accounting, Organizations and Society*, 16:3 (1991), p.276. The Institute, which gained a Royal Charter as early as 1854, won this battle helped by the prevailing political climate and links with the Scottish legal profession.

⁷⁸ Macdonald (1995).

organisation was truly Australasian. One of the founding associations was The Incorporated Institute of Accountants of New Zealand.⁷⁹

The development of accounting associations continued until one or two organisations dominated the profession in each country. For example, in the United Kingdom, the Institute of Chartered Accountants in England and Wales and the Society of Incorporated Accountants and Auditors; in the United States, the American Institute of Certified Public Accountants and the American Accounting Association; in Australia, the Australian Society of Accountants and the Institute of Chartered Accountants in Australia.⁸⁰

Although New Zealand had more than one accounting association, the New Zealand Institute was the only New Zealand accounting association to draft accounting standards. Other countries, such as the United Kingdom and Australia, have more than one professional accounting association involved in setting accounting standards. Having one professional accounting association involved in standard setting makes it easier to examine Larson's model of professional behaviour and also adds to the literature on standard setting. The focus in research on the history of standard setting at the institutional level to date has been relatively narrow, as Gaffikin noted, concentrating on standard setting bodies, whether private or state, rather than the professional accounting association.⁸¹ This thesis addresses this omission.

The accounting profession in New Zealand

The origins of the New Zealand Institute and its structure illustrate why the Institute became the only New Zealand accounting association to produce accounting standards. As in other countries, the accounting profession in New Zealand has a history of multiplicity of associations. In Canada, for example, by 1908 there were Institutes of Chartered Accountants in seven provinces and in Australia, 18 accounting organisations. At this time, New Zealand had four organisations, the Incorporated Institute of Accountants of New Zealand, the Accountants' and Auditors' Association, the Auckland/Wellington Public Accountants Association and The Certified Accountants Association of New Zealand. Without being able to obtain

⁷⁹ Graham (1960), p.18.

⁸⁰ Since 1990, the Australian Society of Certified Practising Accountants.

⁸¹ Gaffikin (2008).

membership lists it is not certain, but most probably the membership of these associations were a fraction of those who were carrying out accounting work. Although New Zealand is a small country, both in size and population, at the end of the nineteenth and beginning of the twentieth centuries there were a large number of New Zealanders doing accounting work, relative to the number of those practising accounting in other countries of British origin.⁸² Why this was so has not been studied but it may be that the scope of work defined as accounting was broader in New Zealand than elsewhere. It may also be a reflection of the structure of New Zealand society and the New Zealand economy.

By the end of the nineteenth century the four organisations were reduced to two main accounting associations, the Accountants' and Auditors' Association (Association) and The Incorporated Institute of Accountants of New Zealand (Incorporated Institute). The older of the two associations, the Incorporated Institute, was created in 1893 and registered in 1894. Within two years, this body was accepting only those who had passed its examinations. The Accountants' and Auditors' Association was formed in 1898 following Auckland concerns about Wellington parochialism and the running of the Incorporated Institute's examinations.⁸³ By the end of its first year the Association was itself setting examinations for prospective members.

The Auckland/Wellington Public Accountants Association and The Certified Accountants Association of New Zealand do not appear to have had a wide influence on the profession.⁸⁴ Indeed, in his speech at the first annual meeting of the New Zealand Society of Accountants (NZSA/Society) in Wellington in 1910, the President noted that there had been no organised society of accountants based in New Zealand before the formation of the Incorporated Institute of Accountants of New Zealand.⁸⁵

Neither the Incorporated Institute of Accountants in New Zealand nor the Accountants' and Auditors' Association dominated the accounting profession. Instead, early in the twentieth century they formed what was to become the major accounting organisation in New Zealand: The New Zealand Society of Accountants

⁸² Graham (1960), p.26.

⁸³ Ibid, p.16.

⁸⁴ M. Nolan, 'Uniformity and Diversity: A Case Study of Female Shop and Office Workers in Victoria 1880-1939,' PhD Thesis, (Canberra, 1989).

⁸⁵ *New Zealand Society of Accountants Yearbook* (1911), p.74.

(NZSA/Society) later named the New Zealand Institute.⁸⁶ The creation of the NZSA was not straightforward. While members of the accounting associations were taking action to ensure that they were treated as professionals in the business community, not everyone was in agreement on how to achieve this. Some members of the two accounting organisations did not see the need for legislation, even while recognising the importance of having a strong accounting association for maintaining a professional reputation. In 1895, the outgoing President of the Incorporated Institute, J.E. Fitzgerald, commented that he was not in favour of accounting as a profession that required legal backing. Rather, he saw accountants being professional in their work to the extent that their ethical behaviour would be sufficient to maintain public confidence in their work.⁸⁷

Other accountants disagreed with Fitzgerald. They wanted the New Zealand Government to legislate and define their profession by statute. These accountants considered this essential to ensure that specialist accounting work could only be carried out by them. A legal foundation would allow the accounting association to regulate its members and, by restricting to members the rights to provide accounting services to the community, guarantee monopoly of the work they carried out. In 1905, the Incorporated Institute and the Association agreed to cooperate to seek the legal registration of accountants in New Zealand. The two associations realised that they needed to control their own affairs and, more importantly, the affairs of the profession in general. For them this was possible only by legislation, as had happened overseas.⁸⁸ The two organisations also realised that their legislative goal was attainable only if they worked together in their application to Parliament.⁸⁹

The accounting associations in New Zealand therefore followed the path taken by their counterpart associations in Britain.⁹⁰ They persuaded the New Zealand Government to make accounting a stated and recognised profession, arguing that in the public interest legal recognition was necessary for accounting. It took a few years at the beginning of the twentieth century for the accounting profession in New

⁸⁶ The similarity of the titles of the organisations with those of corresponding organisations in Australia and Britain show that the founding members of these New Zealand accounting associations were influenced by Australian and British associations.

⁸⁷ C.D. Morpeth, *The Story of the Incorporated Institute of Accountants of New Zealand (to commemorate its coming of age)*, (Wellington, 1917), p.23.

⁸⁸ Lee (1996), p.179, and Robinson (1964), p.109.

⁸⁹ Graham (1960), p.17.

⁹⁰ *Ibid*, p.20.

Zealand to obtain this legal backing. Members of Parliament at that time had to be convinced that it was for the common good of New Zealand society that professional accounting work should be restricted to qualified personnel who belonged to the proposed New Zealand Society of Accountants. After a few attempts and setbacks, the two accounting associations achieved this in 1908 when the New Zealand Government passed the New Zealand Society of Accountants Act.⁹¹ This Act constituted a new accounting association, the New Zealand Society of Accountants, gave legal protection to the use of the titles ‘public accountant’ and ‘registered accountant’ and set disciplinary provisions for the association.⁹² Both the Accountants’ and Auditors’ Association and the Incorporated Institute continued to operate during the twentieth century, the Association until 1950 and the Institute until 1972.⁹³ Why the two associations continued to operate when, under the 1908 Act, members of these two organisations also needed to be a member of the NZSA if they wished to practise as professional accountants, is an area for future research. There must have been benefits to members, perhaps status or a desire to maintain some distance from the NZSA. Members of the Accountants’ and Auditors’ Association were more keen to disestablish themselves than Incorporated Institute members. It is possible that this reflects the origins of the two associations as well as the enthusiasm of the Incorporated Institute for a New Zealand accounting association to have a Royal Charter.⁹⁴

The criteria for membership of the NZSA in 1908 were straightforward but they had two interesting consequences that set the NZSA apart from many of its counterpart associations in other western economies: first, the large number of individuals who joined the new association, and second, the presence of women from the beginning of the Society. Both features gave the NZSA a diversity of membership that made the organisation more representative of New Zealand society than similar organisations overseas were of their societies and hence increasing the suitability of the association as a case study for this thesis. Successful applicants had only to be members of the Incorporated Institute, the Association or a recognised British Empire

⁹¹ Ibid, p.24.

⁹² Ibid, p.22.

⁹³ When each organisation ceased to operate, assets and archival material were transferred to the NZSA.

⁹⁴ *The Accountants’ Journal* in the 1930s commented on the Incorporated Institute’s efforts to seek a Charter. This is a topic outside the scope of this thesis but an area needing further research.

accounting association, or have three years' experience as an accountant.⁹⁵ Gender was not an issue for qualification to be a member of the NZSA and this was in part because of the Accountants' and Auditors' Association. Unlike the Incorporated Institute, the Association had women members. Under the criteria of the 1908 Act, therefore, women immediately became eligible to join the NZSA.

In 1908, 2,327 people immediately applied to join the NZSA. A Registration Board was established by the Government to examine these applications and the number of foundation members was eventually settled at 2,116, with 243 added in a legal amendment in 1910.⁹⁶ Establishing a Registration Board in itself was a sign that the Government took seriously the need to ensure that the quality of Society members was sufficient to guarantee a high level of competence in accounting work. In other countries at this time, much smaller numbers of people were entering accounting associations. In Ireland, for example, in 1913 there were only 128 members in the Irish Institute of Chartered Accountants.⁹⁷ At this time the NZSA was a large institution, by the standards of other professions as well as the accounting profession overseas, although nearly 300 had forfeited membership of the Society by 1912.⁹⁸ The President of the Society noted in his address at the NZSA's annual meeting in 1943 that the NZSA was at that time the largest professional association in the country.⁹⁹

Because the membership criteria outlined in the 1908 Act did not exclude women, New Zealand was earlier than most countries in recognising women as professional accountants. Even though accounting in New Zealand remained a male dominated profession, accounting was a popular choice for women wishing to become professionals. In 1936, more than half of all women who were classified in the census as professional in New Zealand were doing accounting related work; 453 women stated in the census that year that they were employed in professional work, 235 classified themselves as accountants or cost accountants and 13 described themselves

⁹⁵ Graham (1960), p.25. See also Appendix A. Research on these first applicants for membership of the NZSA, such as the proportion of those applying who did so because of previous experience, would provide further insight on the nature of accounting in New Zealand at this time. For example, two of the thirteen women accepted as members of the NZSA in 1908 were members of the Accountants' and Auditors' Association. The remaining eleven were accepted because they had three or more years as employees practising accounting.

⁹⁶ Graham (1960), pp. 25ff.

⁹⁷ Robinson (1964), p.141.

⁹⁸ Graham (1960), p.28. A study of the membership ledger of the NZSA shows that the reason given for ceasing to be a member was usually failure to pay the subscription. Again, this is an area for future research.

⁹⁹ *New Zealand Society of Accountants Yearbook* 1942/43.

as public accountants.¹⁰⁰ Few of these women belonged to the Society. In 1936, 43 of the 2,591 members of the NZSA were women and only eight of them public accountants, and therefore qualified to actually label themselves as chartered accountants. It is possible that many women in New Zealand who classified themselves as accountants were indeed doing accounting work, but they were not members of the accounting profession or its professional association. Their work may have been accounting related and they described themselves as accountants or they were doing accounting work but had not obtained the qualifications for entry to the NZSA.

Olssen and Hickey attributed the large number of women who considered themselves accountants in part to the openness of professions like accounting that made it easier for women to enter and thus ‘facilitated distinctive mobility patterns.’¹⁰¹ It may have been easier for women to do accounting work and to call themselves accountants, but they were rarely chartered accountants, the legislated professional in the accounting profession.¹⁰² Being accepted as a profession was vital for those with the title of chartered accountant for they needed to ensure that the general public knew it could trust the competence of the professional accountant. Therefore as part of the professionalisation of accounting in New Zealand the Society guarded accounting’s professional status. Women and men had to fulfil the NZSA’s criteria for membership.

The 1908 Act was a major step in the professionalisation of New Zealand accounting and the newly created NZSA’s membership structure reflected the professional nature of accounting and the British origins of the profession.¹⁰³ There were two classes and two degrees of membership. The two classes were registered accountant and public accountant. Each of these classes had two degrees of membership, associate and fellow.¹⁰⁴ For all the time that these classes were in place the majority of members of the NZSA were registered associates, not in public practice. That is, most members of the NZSA were registered and not public accountants. From the public’s point of view of the professional offering a service to a client the public accountant category was the more important. If asked to define a

¹⁰⁰ E. Olssen and M. Hickey, *Class and Occupation: The New Zealand Reality*, (Dunedin, 2005), p.160.

¹⁰¹ Olssen and Hickey (2005), p.77.

¹⁰² The term ‘professional’ requires further examination.

¹⁰³ Parker (1989), p.18.

¹⁰⁴ See Appendices B and C for official definitions of these classes and degrees.

professional accountant, a member of the general public would describe a public accountant. This is because the public accountant was the 'face of accounting.'¹⁰⁵ Under the 1933 Companies Act in New Zealand, for example, only public accountants were qualified to sign audit reports for public companies. Public accountants were the independent practitioners, fulfilling the criteria of the professional more than registered accountants, bringing in clients to the accounting firm. Public accountants were more likely to be self-employed or in partnership. Thus, as discussed earlier, accounting in New Zealand differed from other professions such as dentistry, medicine and law, where a larger proportion of practitioners were in public practice. For example, as recently as 1991, only about fifteen percent of New Zealand accountants held certificates of public practice. At this time, almost a quarter of dentists were self-employed.¹⁰⁶ The nature of accounting practice is such that almost all entities require the services of an accountant more often than individuals usually require dental work and much accounting work may be carried out by trained accountants before being signed off by the public practitioner.

Registered accountants were employed in the private (industry) and public (government) sectors to perform accounting duties that did not require them being a public accountant. Registered members joined the NZSA because of the advantages that came from belonging to a professional association including access to professional development and contributing to the development of the profession. Some teachers and lecturers from educational institutions, for example, belonged to the NZSA. As educators, their role in the accounting profession was similar to that of law lecturers and other employees in the legal profession, who do not customarily practise law.¹⁰⁷

The two degrees of membership, associate and fellow, present in both the classes, also reflected the professional nature of accounting. Of the two degrees of membership, the more prestigious was that of fellow.¹⁰⁸ At first, any member in the NZSA, whether registered or public, could apply to be made a fellow. But later in the twentieth century the regulations were changed and a member had to be nominated to become a fellow. The advantage of being a fellow had more to do with perception by the public of the professionalism of an individual. In effect age and proven experience

¹⁰⁵ Westcott and Seiler (1986), p.51.

¹⁰⁶ M. Hutchison (1991), private letter.

¹⁰⁷ G. Gatfield, *Without Prejudice: Women in the Law*, (Wellington, 1996), p.132.

¹⁰⁸ Appendices B and C.

in being a qualified accountant were the criteria for becoming a fellow. Other professions, such as medicine, have also used the concept of fellow to define practitioners who were more attractive to their clients because they were considered to have a level of experience that their colleagues acknowledged.¹⁰⁹

During the twentieth century the accounting profession in New Zealand developed along similar lines to the profession overseas. In 1968, the NZSA reworked the categories for membership and removed the classes of public and registered accountants.¹¹⁰ In their place was the one designation for fully qualified members, that of chartered accountant, a title used in other countries and conveying to the general public, that is, potential and other clients, that they were receiving services from a professional.¹¹¹ The term 'chartered' indicated that the government had given special recognition to the profession. For the following thirty years this was the only class of membership in the NZSA, although to offer services to the public required a certificate of public practice from the Society.¹¹² In 1996, the NZSA recognised that changes in New Zealand society were creating new areas in accounting and new demands on accountants as professionals. As a result the NZSA altered its name and membership categories. The Society now became the New Zealand Institute of Chartered Accountants (ICANZ/Institute) and three Colleges were introduced; chartered accountant, associate chartered accountant and accounting technician.¹¹³ Again, the term 'College', used in other professions such as medicine, implied a degree of professional behaviour that the general public would recognise and be assured would apply to the work done by the accountant.

Chartered accountants, in New Zealand and elsewhere, were the highest qualified practitioners of accounting and, if they held certificates of public practice, were eligible to become partners in public accounting firms. The audits of certain organisations continued to be performed only by chartered accountants in public practice. Members in this category followed the most stringent professional development. Training took seven years, four at tertiary level and then three in an approved training organisation. Public accountants and partners of accounting firms must be chartered accountants. Associate chartered accountants had less demanding

¹⁰⁹ O'Day (2000), p.8. O'Day noted the dependence of individual professionals on each other, rather than their clients, for recognition in a profession.

¹¹⁰ NZSA Amendment Act 1968.

¹¹¹ Lee (1996), p.175. This occurred in Scotland as early as the mid 1800s.

¹¹² Appendix C.

¹¹³ Appendix D.

requirements for membership than chartered accountants, but they were still involved in professional accounting related work.¹¹⁴ Associate chartered accountants had a similar length of training. But after four years of study at tertiary level and other requirements such as mentoring, their further training did not have to be at an approved training institution and they did not have to have acquired the second level of the professional competence examinations.

Gender differences remained in the profession. Chartered and associate chartered accountants were more likely to be male, although by the turn of the century, equal numbers of men and women were entering the two colleges.¹¹⁵ Of the three categories, the least qualified was that of accounting technician. This category had the fewest requirements for entry into membership of the Institute and more females than males were accounting technicians. The work carried out by the technician assisted the chartered accountant.¹¹⁶ Only four years of training was needed and that did not have to be at tertiary level.¹¹⁷

Initially the College of Associated Chartered Accountants was open only for five years. The College closed to new members in 2001 but reopened in 2006 following a survey of members that showed renewed demand for this category of professional accountant.¹¹⁸ ICANZ's Chief Executive, G. Muriwai, outlined the Institute's reasons for the proposed reopening.¹¹⁹ He stated that the Institute had a statutory obligation to ensure that the public interest was maintained by controlling those practising accounting. It could only do this, Muriwai argued, if all these people were actually members of the New Zealand Institute, and, as the census repeatedly showed, there were people with training in accounting practising without belonging to a professional accounting association. The 2001 Census, for example, indicated that more than half of those who were in accounting or finance related work did not belong to the Institute and in 2006 just under half of all students completing third year accounting at tertiary institutions did not join ICANZ. Although some of these

¹¹⁴ Appendix D.

¹¹⁵ New Members lists in *Chartered Accountants Journal* 2000 to 2006.

¹¹⁶ Appendix D.

¹¹⁷ Appendix D.

¹¹⁸ Although never officially stated, one reason for the reopening of the College was the threat posed by an Australian accounting organisation to the New Zealand Institute's dominance in New Zealand. The Australian association was ready to accept new members who would otherwise have been eligible for the New Zealand Institute's College of Associate Chartered Accountants. Not every member of the Institute was in favour of the move and there was vigorous opposition to the reopening of the College.

¹¹⁹ G. Muriwai, 'Proposed new membership design,' *The Accountants' Journal*, 85:4 (2006), pp.6-8.

students may acquire a commerce degree they were not undertaking further studies to become qualified Chartered Accountants.¹²⁰

Reopening the College of Associate Chartered Accountants gave the Institute the opportunity to enlarge its area of influence, providing another example of Larson's theory. The New Zealand Institute wished to control a wider range of accounting work delivered in the country and considered that it was better positioned to do this if more people carrying out accounting related work were Institute members.¹²¹ That is, as Larson observed, a professional association acted to maintain dominance of services in a specified field and did so in the public interest with self interest. Retaining control was in the interest of the Institute, even when such actions sometimes posed longer term difficulties for the association. However, in keeping with the ethical and professional origins of the association, the Institute stressed the public interest.

Conclusion

This chapter sets out a theoretical framework within which to address the research questions, why and how the New Zealand Institute became a standard setter. The first part of this chapter discussed the professionalisation of accounting, emphasising in particular Larson's model of professional behaviour as a means of explaining the professionalisation process. The second part of this chapter introduced the New Zealand Institute, its origins and structure, in order to provide a context for the analysis of the history of standard setting in New Zealand.

Accounting was one of several occupations that became professions during the nineteenth century. Professionalisation, as Vollmer and Mills defined it, occurred when individuals acted collectively to obtain monopoly of practice in their occupational area. They did so with the agreement of society on the grounds that they had special knowledge from which society could benefit when they, as the professionals, had the monopoly on practice.¹²² Thus, a link formed between professional behaviour, in the form of collective activity by professionals to acquire monopolistic delivery of services, and professionalisation, as social acceptance of the right to act in such a manner and be awarded economic and social status in return.

¹²⁰ Muriwai (2006), p.6.

¹²¹ Ibid, pp.6 and 7.

¹²² Vollmer and Mills (1966).

Collective activity occurred through professional associations, the organisations created by the new professionals. This explains why the professional associations were established early in the history of the professions, why they are an important feature of a profession, and hence why researchers such as Larson based their models of professional behaviour around the actions of the associations. The professional associations carried out the professionalisation process as characterised by Vollmer and Mills, exhibiting power over knowledge and acting, often with the support of the state, to maintain monopoly of delivery of services.

Larson's model links professional behaviour and professionalisation in terms of the professional project, that is, activities the associations undertook to acquire and maintain the professional status of their members. In accounting, the professional project was carried out by accounting associations creating and fulfilling demand for quality accounting services, earning consumer trust through the competence and ethical behaviour of their members and thus providing the means for accounting to become accepted as a profession. Larson's model of professional behaviour has been applied to a number of accounting services delivered by the professional accountant.¹²³ In this thesis, this model is advanced to provide an explanation for why and how the accounting profession became the standard setter for external financial reporting.

Achieving and maintaining professional status through the professionalisation process provided the incentive for accountants in New Zealand and elsewhere, through their associations, to monopolise several accounting services. As the next chapter demonstrates, one service accountants eventually dominated was the regulation of external financial reporting through standard setting.

¹²³ Macdonald (1995).

Chapter Three: The Professionalisation Process: Accounting Standards and Regulating External Financial Reporting

Introduction

During the twentieth century the accounting profession decided to regulate external financial reporting. Why this was so, and some of the consequences of that decision are discussed in this chapter. The first section of this chapter considers external financial reporting and why it is regulated, looking in particular at the accounting profession's motives for becoming a standard setter. The second section begins a discussion on how the profession carried out standard setting, examining the nature of accounting standards and the implications of this for their effectiveness. This section also highlights the relationships between the profession and other groups, exploring the importance of the political element in the accounting profession's maintenance of standard setting.

Why regulate external financial reporting

Many entities must produce information about their financial activities to report on their performance to owners, investors, the government and other interested groups. This information, written as financial statements, is produced in financial reports that may be for internal or external use. Internal financial statements are of interest to management of an entity. External financial reports supply information of interest to diverse groups or institutions, from owners to government departments.¹ These reports are regulated through the application of accounting standards. External financial reporting as a means of providing information to interested parties has probably been in existence for as long as businesses have needed to borrow capital but the need for a formal approach to define and describe the financial activities of an entity is a relatively recent phenomenon as society demanded appropriate and meaningful reporting. This however, must be carried out with regard to costs and benefits and who will bear both. Only in the past two hundred years, since business activities have become more capital intensive, have certain entities been required to

¹ J. Burton (1969) quoted in M.E. Hussein, 'The innovative process in financial accounting standard setting,' *Accounting, Organizations and Society*, 6:1 (1981), p.28. J. Hagen noted that financial analysts rather than mum-and-dad investors were the users of external financial reports.

produce financial statements for external parties.² Information showing an entity's financial position and financial performance fulfils management's accountability to owners and allows users to make economic decisions, although the focus varies among countries.

While the basic aims of external financial reporting appear straightforward, stewardship or accountability and decision-making, producing reports that fulfil those objectives is complicated. External financial reports have a number of uses, relevant to the user at the time. In general, external financial reports must provide financial information that allows the user of that information to gain an accurate picture of the entity's activities.³ Reports may provide accountability of management to owners of an entity, allow better decision-making by intending investors in an entity or inform potential creditors of its viability. The problem was what constituted an accurate picture of an entity's financial activities and how the reports could convey financial information so that numerous users had their differing needs fulfilled in a cost effective manner.

In English-speaking countries, governments defined what they meant by an accurate picture of an entity's financial activities through legislation in successive Companies Acts, although these definitions were somewhat limited in detail. The British Companies Act 1844, for example, referred to 'full and fair' reports while later Acts specified that reports should be 'true and correct' and then 'true and fair.'⁴ That is, the more accurately external financial reports reflected an entity's performance, the more 'true' they were and the more complete the external financial statements were, the more 'fair' and able to be applied for a wide range of purposes. Although 'true and fair' is a generally accepted term it has proven as difficult to describe as the quality of accounting standards, because what is 'true and fair' depends on interpretation by users and whether their needs are fulfilled.⁵

² C.J.Napier, 'Accounts of change: 30 years of historical accounting research,' *Accounting, Organizations and Society*, 31:4/5 (2006), pp.445-507.

³ There is a large literature on the issue of financial information providing a 'true and fair' view of an entity's financial activities. See, for example, R.H. Parker and C.W. Nobes, *An International View of True and Fair Accounting*, (London and New York, 1994); *The Legacy of June Pallot: Public Sector Financial Management Reform*, S. Newberry (ed.), (Greenwich, Connecticut, 2006).

⁴ Parker (1989); Parker and Nobes, (1994), p.1; *The New Zealand Companies Act 1955* followed the British legislation. See, for example, K. Cooper and H. Deo, 'Recurring cycle of Australian corporate reforms: a never ending story,' *Journal of American Academy of Business*, 7:2 (2005), pp.156-163.

⁵ Parker and Nobes (1994), p.13. and Cooper and Deo (2005). See also chapter two.

To achieve a 'true and fair' external financial report is therefore complicated. There are several uncertainties such as what items from entity transactions should be in financial statements so that an entity's situation is clear and at what value should the statements list those items. During periods of economic inflation, such as the 1970s, the issue of measuring the value of items in financial statements was particularly fraught and not resolved, even though a number of measurement methods were proposed.⁶ As the debate over current cost accounting in New Zealand showed, even the accounting profession could not produce a generally agreed valuation method. The legislation did not help. Even though the Companies Act and other related laws have extensive disclosure requirements these are still not sufficient to fulfil varied user requirements.

What is disclosed in external financial reports is another longstanding issue. The usefulness of the reports to interested parties is in part affected by presentation. Entities therefore have to consider both what they disclose and how they disclose information about their activities. With the varying demands for financial information from users one concern was '...standardisation of financial reporting and how to satisfy the customer.'⁷ A complication here was the variety of customers and their needs. Users of external financial reports ranged from individuals to government departments and included investors, creditors, shareholders and government. For example, an investor may rely on the financial statements of an entity when deciding whether to invest in the entity, and be interested in financial information about the profitability of the entity, while a creditor would want reliable cash flow information in the same reports, to determine if the entity could meet its interest obligations and remain viable. Banks relied on the accuracy of general purpose financial statements when deciding whether to lend capital to an entity, and government departments, such as Inland Revenue, used the information in the reports to determine taxation and related payments.

The multiplicity of users of external financial reports and the importance of those reports in ensuring public and business confidence in economic activity necessitated regulation. Regulation was 'the policing, according to a rule, of a subject's choice of activity, by an entity not directly party to or involved in an

⁶ J. Hagen and P. Welham, 'CCA- now it's decision time,' *The Accountants' Journal*, 60:7 (1981), p.266.

⁷ J.W. Muis, 'Accounting Standard Setting: the Pith and the Pendulum,' *Accounting and Business Research*, 28 (Autumn, 1977), p.292.

activity.’⁸ To be successful, a regulation must be efficient, proportionate, non-discriminatory, subject to review, not anti-competitive and directed to the public interest.⁹ A regulation was thus good when it was effective (and dealt with identified market failures) and efficient (benefits outweighed costs). An effective accounting standard, for example, was clear, providing a minimum number of recommended methods of dealing with a financial situation.¹⁰ In addition, with the many users of reports and their varying needs, quality accounting standards needed to be consistent and allow comparability of reports over years and between entities. ‘The pressure for uniform principles has developed largely from the demands of the capital market with the attendant need for fundamental reforms in company accounting practice...the reforms will reduce harsh criticism from the commercial world.’¹¹

Wilson in his study of the United States economy gave two reasons for regulating: public interest and self interest, naming these as the political causes of regulation.¹² Wilson observed that to understand which motivation operates in a regulation it is necessary to consider the costs and benefits under which the regulation occurs. When applied to external financial reporting, those who benefit from regulated external financial reports may be the entities as preparers of the reports, the many users of the reports or the regulators, direct, such as the accounting profession, and indirect, such as the state. Entities incur costs of time and expenses preparing external financial reports and there are costs of regulating the reports. These costs include administering the regulations, establishing statutory and government bodies and other legal costs, as well as the costs of developing non legislative regulations such as accounting standards.

Although it would be expected that those who benefit from a regulation would bear the costs of devising and implementing that regulation, in reality, this was not necessarily the case. In his studies, Wilson described four patterns of regulation using

⁸ D. Drever, P. Stanton and S. McGowan, *Contemporary Issues in Accounting*, (Milton, Queensland, 2007), p.69.

⁹ F. del Valle, ‘Joined Up Thinking,’ *Financial Management*, (March 2008), pp.24-28. A Speech he gave as 2007 President of International Federation of Accountants to Federation des Experts Comptables Européens.

¹⁰ R. King and G. Waymire, ‘Accounting Standard Setting Institutions and the Governance of Incomplete Contracts,’ *Journal of Accounting, Auditing and Finance*, 9:3 (1994), pp.579-605.

¹¹ Editorial Comment, *The Accountants’ Journal*, 48:5 (1969), p.177.

¹² J.Q. Wilson in J.W.McKie (ed.), *Social Responsibility and the Business Predicament*, (Washington, 1974), pp. 141-146.

cost/benefit analysis.¹³ Two of these types of regulations were especially relevant to the production as well as the control of external financial reporting. These types were when benefits were diffused and costs concentrated and when benefits were concentrated with costs diffused.¹⁴ When the costs of producing reports are concentrated, for example on the entities themselves, those entities do not have an incentive to produce external financial reports as demanded by users. Daniels noted ‘...all the evidence seems to indicate that autonomy does not encourage the development of practicable or workable systems of control (by entities).’¹⁵ This may occur for example, if entities thought that their financial information might give competitors an advantage or there could be comparisons of entity performance. There are also the costs of producing the regulations. The accounting profession has, for example, for many decades borne the costs of drafting and producing accounting standards, but has done so in the public interest. In this situation, users are able to make better economic decisions while not directly bearing the costs of disclosing financial information in external financial reports. Wilson’s patterns of regulation also show self interest, where benefits were concentrated on the regulators or regulated and costs diffused, being borne by other groups. The regulatory capture model is an example of this pattern, where the regulators, such as the accounting profession, or the regulated, that is entities, benefit while report users or wider society bear the costs of regulating external financial reports.

Richardson and Kilfoyle concluded that whether or not regulation was actually necessary depended on why external financial reports needed regulating and how successful any regulation was.¹⁶ Advocates of signalling and agency theories considered there was no need for regulating external financial reporting as entities have an incentive to release financial information in an efficient market system.¹⁷ Entities that provide good financial information will attract investors and individuals seeking to maximise their own benefits will act only in their own best interest.

¹³ Ibid.

¹⁴ The remaining two types, not directly applicable in regulating external financial reporting are regulations with concentrated costs and concentrated benefits, usually found in negotiations between employer and employee institutions and regulations with diffused benefits and diffused costs that are usually borne by society, as in Social Welfare and Health.

¹⁵ A.K. Daniels in *The Professions and their Prospects*, E. Freidson (ed.), Beverley Hills and London, 1973), p.54

¹⁶ Richardson and Kilfoyle (2009), p.318.

¹⁷ A.G. Puxty, ‘A Critical Overview of Agency Theory,’ in *Critiques of Agency Theory in Accountancy*, A.G. Puxty (ed.), Issues in Accountability XII, (Glasgow, 1985). See also R.L. Watts and J.L. Zimmerman, *Positive Accounting Theory*, (Englewood Cliffs, New Jersey, 1986).

Staubus, looking at the market for financial information, noted that the interest groups that gained most often were management, the producers of the financial information.¹⁸

By the end of the nineteenth century, financial reporting in New Zealand and other English speaking countries was a necessary part of commerce and subject to regulation through legislation.¹⁹ New Zealand's financial reporting legislation, for example, embodied in a succession of Companies Acts, followed British Companies Acts with few modifications. Companies Acts outlined the obligations of entities to users of the reports, detailing the content and timing of the reports. From 1907, for example, British Companies Acts had a minimum disclosure principle.²⁰ Legislation continues to regulate external financial reporting, and the law has expanded from Companies Acts to include other legislation, such as the Public Finance Act 1989 and the Financial Reporting Act 1993 in New Zealand. Notwithstanding the presence of legislation, from the 1930s in the United States and the 1940s in the United Kingdom, the accounting profession became increasingly involved in the regulatory process.

Ultimately, the reason for regulating external financial reporting was, as Solomons noted, to ensure that entities were disclosing financial information that fulfilled user needs.²¹ This was important given instances of financial information released by entities misleading users and causing commercial scandals.²² Cooper and Keim defined the public's need for some type of regulation of external financial reporting and the accounting profession's supply of standards as a form of regulation in economic terms, thus showing an economic rationale for regulating external financial reports.²³ They saw the public demand for regulation stemming from a problem of unequal availability of information on entity activities: information asymmetry. Financial and other institutions have the means to obtain financial information that is sufficient for them to make reasonable decisions regarding investing or lending to entities but the ordinary investor relies on external financial

¹⁸ G.J. Staubus, 'Introduction to Chapter 3 "Issues in the Accounting Standards-Setting Process",' in *Accounting Theory: a contemporary review*, (eds) S. Jones, C. Romano and J. Ratnatunga, (Sydney, 1995), pp.189-215.

¹⁹ For a good introduction to the concept of regulation, see Drever, Stanton and McGowan (2007).

²⁰ C. Ó hÓgartaigh, 'Financial Accounting Practice,' in Edwards and Walker, (2009), p.169.

²¹ Solomons (1986), p.67 noted that to the American Financial Accounting Standards Board decision-usefulness was the primary objective of financial reporting.

²² Carey (1969), pp.35-48; In Britain, there was the Royal Mail case (*Rex v Kyslant* 1931) where the company from 1921 to 1927 issued dividends from secret reserves. See later in this chapter for a discussion on corporate failures and their effect on profession-state relations.

²³ K. Cooper and G.D. Keim, 'The Economic Rationale for the Nature and Extent of Corporate Financial Disclosure Regulation: a critical assessment,' *Journal of Accounting and Public Policy*, 2:3 (1983), pp.189-205

reports. If these reports are misleading then the public could make poor investment decisions. The accounting profession recognised its obligation to help correct this anomaly.²⁴

The accounting profession was the logical institution to set accounting standards in New Zealand and elsewhere. The state provided legislation regulating the disclosure of financial information but, as discussed earlier, detailed guidelines were required to meet user demand. The knowledge and skills of the accounting profession in financial reporting made the profession able to distinguish and define the rationale behind a regulation, develop codes of practice and establish procedures to deal with financial reporting, increasing entity confidence in the truth and fairness of external financial reports.²⁵ Consequently, drafting standards will inevitably involve the accounting profession although the standard setting body, as recent years in the New Zealand case study show, does not have to be the profession or the professional associations. However, in the early days of regulating external financial reporting the associations were more responsive to user demands than the state.²⁶ As a result, in New Zealand, for example, standards were written by the New Zealand Institute, which acted to deliver a process that was open and transparent and did so without opposition. Other groups left the Institute to set the standards for external financial reports. The New Zealand Securities Commission, for example, commented on accounting standards and their use by entities, but the Commission has not attempted to write accounting standards.²⁷ The Institute has not worked in isolation as standard setter. Although the drafter of accounting standards in New Zealand, the Institute remained aware of the political and economic climate when responding to the need for standards.²⁸

Regulating external financial reports fitted within an economic and social environment that was increasingly regulatory.²⁹ The public interest was satisfied as a wide range of interested groups could make better economic decisions when external financial reporting was regulated, including creditors and investors.³⁰ The state

²⁴ Stamp (1980).

²⁵ J. Foots, 'A Regulated Accounting Profession: Its Impact on Business,' in Watson (1981).

²⁶ Seneviratne (1999), p.29.

²⁷ New Zealand Securities Commission, *Capital Structure and Financial Reporting in New Zealand*, (Wellington, 1989).

²⁸ A.L. Mackenzie interview 19 June 2009.

²⁹ Baldwin *et al.* (2010), p.6.

³⁰ Solomons (1986), p.67.

benefited when there was economic stability. The accounting profession also benefited as the regulator. As Wilson noted, regulation was in the public interest and in self interest.³¹

Regulating in the public interest

External financial reporting aimed to ‘provide adequate information about the real economic position and performance of an enterprise to all potential users who need such information to make decisions.’³² However, as entities and their transactions became more complex and economies grew, users of external financial reports increasingly questioned the adequacy of financial information and demanded regulation. This was especially so in countries where many users of the reports did not have access to financial information to verify the accuracy of the reports. This ‘information asymmetry’ was an obstacle to good economic decision-making causing governments to consider regulation to ensure economic stability.³³

Economic arguments favouring regulating external financial reporting usually refer to these inefficiencies in the supply of and demand for the reports.³⁴ There was, therefore, an element of public interest in the case for regulating external financial reporting because good economic decision-making by users of external financial reports contributed to the well being of society. Entities failing and investors losing their investments affected many others in society, including employees, families and associated entities.

The New Zealand profession frequently claimed its involvement in standard setting on the grounds of public interest.³⁵ The profession acknowledged its responsibility to act for the benefit of the public because it was a profession and had a duty to serve the public. Society expected a profession to work for the greater good

³¹ Wilson (1974).

³² E. Stamp, ‘Accounting Standard Setting...a new beginning: Evolution not revolution,’ *CA Magazine*, (September 1980), p.39.

³³ D. Solomons, *Making Accounting Policy*, (New York, 1986), p.185.

³⁴ K. Cooper and G.D. Keim, ‘The Economic Rationale for the Nature and Extent of Corporate Financial Disclosure Regulation: a critical assessment,’ *Journal of Accounting and Public Policy*, 2:3 (1983), pp.189-205.

³⁵ See, for example, H. Valentine, ‘Correspondence,’ *The Accountants’ Journal*, 8:5 (1929), pp.173-174; R.G. Walker and S.P. Robinson, ‘Competing Regulatory Agencies with Conflicting Agendas: setting standards for cash flow reporting in Australia,’ *Abacus* 30:2 (1994), pp.119-137; S. Thornburg and R.W. Roberts, ‘Money, Politics and the Regulation of Public Accounting Services: Evidence from the Sarbanes-Oxley Act of 2002,’ *Accounting, Organizations and Society*, 33:2/3 2008, pp.229-248.

and the accounting profession was to do this in part through standard setting.³⁶ The benefits of regulating external financial reporting extended beyond the users of the reports to wider society, because reducing entity failure allowed greater economic stability.

In addition to maintaining quality accounting services the reward for the profession was social and economic status and professional accountants were well aware of this link.³⁷ In 1937, for example, the New Zealand Institute's President reminded members that working in the public interest helped raise the standing of the profession and justified professional status.³⁸ Acting in the public interest underscored the importance of the pursuit of status by organisations such as the accounting profession. Consequently it is not difficult finding statements from leaders of accounting organisations like the Institute reiterating the commitment of the profession to behaving in an ethical manner, that is, with the public interest in mind. Office holders in the New Zealand Institute over several decades have confirmed the Institute's determination to gain the confidence of the public in the ability of accountants to deliver quality accounting services, among them setting accounting standards.³⁹

Officially the New Zealand profession, as elsewhere, has given public interest as the reason for its accounting services and this working for the public interest was apparent in those interviewed for this thesis. Of the thirteen current and former members of the New Zealand Institute's standard setting boards three said they became interested in setting accounting standards because it was for the benefit of society, two others stated that standards were a public good and one saw his membership of the board a consequence of his firm's pro bono involvement in the profession. The other interviewees became standard setters because of their interest in improving the quality of standards, which may be interpreted as an indirect fulfilling of public interest or an interest in the concept of standard setting that started in their student days.

When the accounting profession spoke about its responsibilities to the public, the profession had in mind all users of external financial reports, but especially the

³⁶ Lee, Bishop and Parker (1996), p.170.

³⁷ Parker (1987) suggested that, prior to World War Two, ethical pronouncements by Australian professional associations almost invariably were aimed at protecting the profession.

³⁸ M.S. Spence, Presidential address to the Wellington branch, *The Accountants' Journal*, 16:5 (1937), pp.522-523.

³⁹ Muriwai (2006).

small investor, rather than the public at large. When an entity failed, many were affected, including smaller investors or creditors. These groups were especially vulnerable because they were not in a position to force entities to disclose financial information. Entities would not necessarily voluntarily supply the information users required.⁴⁰ Regulation reduced, but as entity failures and share market crashes show, do not eliminate, the likelihood of management misleading users of external financial reports and causing investors to make unsound decisions.⁴¹

The New Zealand accounting profession, for example, aimed to maximise benefits for report users while reducing costs of poor decision-making. In New Zealand, standard setting was 'very sensible and focused on cost/benefit considerations.'⁴² Consequently there was a strong incentive for regulating financial reporting, not just in the interests of potential investors but also to direct the reporting with the profession taking a lead in the public interest. Regulation of external financial reporting therefore included elements of 'the traditions, institutions and processes that determine how power is exercised, how citizens are given a voice, and how decisions are made on issues of public concern.'⁴³ In effect, standard setting was governance of an activity, giving control of that activity to particular institutions in a way that incorporated the principle of public interest.

Even if external financial reports were considered an economic good and the users had to pay for financial information, regulation would probably have been inevitable because of the consequences of information asymmetry in the market for the reports. Suppliers and demanders of financial information about businesses were not equal and the disclosure of financial information was uneven, sometimes leading to information failures.⁴⁴ This was more likely to happen when the information a report user needed to make good decisions was costly to produce and make available. Many users were not in a position to determine the quality of the goods or services they purchased, highlighting the need for regulation.⁴⁵ Using Wilson's diffused

⁴⁰ Solomons (1986), pp.188 and 189.

⁴¹ K. Hooper, H. Davey, S. Johns and B. Oldfield (eds), *Issues in Accounting*, (Palmerston North, 2001) and M.R. Mathews and M.H. Perera, *Accounting Theory and Development* 3rd edition, (Melbourne, 1996); G. Foster, 'Externalities and Financial Reporting,' *The Journal of Finance*, 35:2 (1980), pp.521-533 and del Valle (2008), pp.24-28.

⁴² J. Hagen, *ICANZ Brand Launch*, 2005.

⁴³ A.J. Richardson and E. Kilfoyle, 'Regulation,' in Edwards and Walker (2009), p.319.

⁴⁴ del Valle (2008) and Cooper and Keim (1983).

⁴⁵ *E-DEC Report* quoted in *Regulation of the Legal Profession*, I. McEwin, (Wellington, New Zealand Business Roundtable, 2000), p.30.

benefits and concentrated costs pattern of regulation, regulating external financial reports reduced the inequity between those supplying and those demanding the reports and was in effect an example of consumer protection, where the consumer was the report user. However, in this situation the benefits diffused to the many users of the reports but the costs of regulating fell on the drafters of the standards, that is, the accounting profession as well as the preparers of the reports. There was thus a case for government intervention in standard setting so that those benefiting from the use of the standards, namely society beyond the business sector, bore some of those costs.⁴⁶ In the latter part of the twentieth century, as the New Zealand case study shows, pressure increased for the government to intervene and the profession, aware of the costs of drafting standards, did not object.

The link between regulating in the public interest and the professional reputation of accountants is highlighted in that by acting with the users of external financial reports in mind, for the common good, the accounting profession was behaving in a professional manner.⁴⁷ The rewards of professional behaviour, economic and social standing, provide a self interest motive for the profession to be a standard setter.

Regulating for self interest

Researchers studying the self interest motives of regulators such as the accounting profession have posited capture and public choice theories to explain why a profession dominates delivery of a professional service. The accounting profession has been accused of acting in its own interests and capturing the regulatory process for its own ends.⁴⁸ Unlike the public interest model, the regulatory capture model, an example of Wilson's pattern of regulation with concentrated benefits and diffused costs, showed the accounting profession benefiting from being a regulator while a broader group, entities and users of the reports, bore the greater costs of regulation. In these circumstances, as noted above, entities could be reluctant to disclose financial information because they had to bear the costs of preparing external financial reports

⁴⁶ T. van Zijl interview 16 July 2009.

⁴⁷ Ibid.

⁴⁸ Thornburg and Roberts (2008) noted that financial contributions made by the accounting profession to political campaigns in the United States showed that the profession as a whole was conservative in outlook and focused on client and member interest rather than public interest. See also, P.M. DeMarzo, M.J. Fishman and K.M. Hagerty (2005).

and yet the information was available to competitors.⁴⁹ Regulating external financial reporting so financial information was available to all and its use by one person did not preclude others using that information, made the reports a public good.⁵⁰ Suppliers of the reports did not have any means of forcing users to pay for the information and hence they had little desire to supply the information. Entities, however, did not only bear costs of regulation. Some benefits of external financial reporting accrued to some entities when they showed an economically healthy position and were able to improve their financial position in the regulated environment.⁵¹

To have entities using the standards, the accounting profession needed to have user confidence and this was not always the case.⁵² At times concerns were expressed about the profession being more interested in its role of representing its members than the wider interests of the community, sometimes to the extent of hindering innovation in financial reporting.⁵³ When the profession set the standards and monitored their use there was no separation of control, as in a system where the state acted on behalf of report users. That is, the profession was regulating its own actions in a form of corporatism where the profession had the power and could be seen as being insufficiently accountable for its actions.⁵⁴ Self regulation was seen as undemocratic and open to accusations of conflict of interest. These accusations, with the concomitant threat of state intervention in the standard setting process, could galvanise the profession to voluntarily regulate itself, but even then 'professions often demanded self regulation and then refused to implement their own codes against erring members.'⁵⁵

The profession therefore was not immune from user criticism when regulating external financial reporting, nor from critical appraisal by preparers of the reports and to this extent was accountable for its actions as standard setter. In the United States,

⁴⁹ Solomons (1986).

⁵⁰ Cooper and Keim, (1983).

⁵¹ S. Thornburg and R.W. Roberts, 'Money, Politics and the regulation of public accounting services: evidence from the Sarbanes-Oxley Act of 2002,' *Accounting, Organizations and Society*, 33:2/3 (2008), pp.229-248.

⁵² Freidson (1973).

⁵³ T.J. Fogarty, L.J. Zucca, N. Meonske and D.P. Kirch, 'Proactive practice review: a critical case study of accounting regulation that never was,' *Critical Perspectives on Accounting*, 21:2/3 (1997), pp.167-187.

⁵⁴ Seneviratne (1999).

⁵⁵ Perkin (1989), p.479. R. Byington and S. Sutton, 'The self-regulating profession: an analysis of the political monopoly tendencies of the audit profession,' *Critical Perspectives on Accounting*, 2:4 (1991), pp.315-330

for example, the 1977 Metcalf Report accused the Big 8 accounting firms and their clients of dominating standard setting.⁵⁶ The accounting profession has responded to these criticisms by, for example, reviewing standards, or, as Hines concluded, going to the extent of claiming they had a body of knowledge that could improve the effectiveness of standards.⁵⁷ Sometimes the public interest appeared to take second place to self interest. Fogarty *et al.* for example, described the ‘nothing’ moves of the accounting profession in response to demands for changes that appeared to correct a problem, but in reality were only changes to procedures or even changes to areas around an issue and not correcting the issue itself.⁵⁸

More usually the profession retained control of the regulating system by ensuring that it was part of any state intervention.⁵⁹ In Australia, Walker concluded that the Australian Accounting Standards Board (AASB) was captured by auditors and their clients, which he noted explained the profession’s cooperation in the creation of the board.⁶⁰ By obtaining control of the AASB, the profession was maintaining its dominance in standard setting but not necessarily with the public interest in mind. Guidelines published by the Board were less effective than the standards applied in the larger accounting firms.⁶¹

As in Australia, the New Zealand Institute’s involvement in the development of accounting standards in New Zealand incorporated both elements of control and guidance. ‘[The] New Zealand [accounting profession] has explicitly embraced a self regulatory model of governance for economic entities- a model that calls for professionals to lead on critical issues of accountability, risk management, audit independence and more.’⁶² But although its performance was criticised occasionally, for example in 1987 following the stock market crash, the New Zealand accounting profession received less criticism than did the Australian profession, even though the New Zealand profession could be accused of doing what the Australian profession did.

⁵⁶ *The Metcalf Report* 1977.

⁵⁷ R.D. Hines, ‘Financial Accounting Knowledge, Conceptual Framework Projects and the Social Construction of the Accounting Profession,’ *Accounting, Auditing and Accountability*, 2:2 (1989), pp.79-92.

⁵⁸ T.J. Fogarty, L.J. Zucca, N. Meonske and D.P. Kirch, ‘Proactive practice review: a critical case study of accounting regulation that never was,’ *Critical Perspectives on Accounting*, 8:3 (1997), pp.167-187.

⁵⁹ Cooper and Deo (2005). Walker (2004), pp.127-156 noted the connection between capture and protecting social status.

⁶⁰ R.G Walker (1987), pp.269-286.

⁶¹ T. van Zijl (2009).

⁶² R. Tiffin, ‘Stand Up the Chartered Accountant,’ *ICANZ Brand Launch*, 2005.

Keenan, studying the actions of the accounting profession in New Zealand in the early 1990s, showed how the Institute, along with other New Zealand regulatory bodies such as the New Zealand Stock Exchange and the New Zealand Securities Commission, lobbied for mandatory accounting standards with legal backing for standards to be given through a standards authority ostensibly independent of the profession.⁶³ In reality, the New Zealand accounting profession dominated the new standard setting body. Three members of the Institute's standard drafting body were also members of the new standard setting body, although they were there as individuals not representatives of the Institute. The difference in the new process of standard setting from before was that the Institute was no longer issuing the standards.

By capturing the regulating of external financial reporting the accounting profession was reinforcing its control of what was now perceived by the public as an accounting service, regulating and auditing external financial reporting. Thus, the profession benefited from the income of delivering this accounting service and from maintaining social standing in the community. Milne noted that some of the benefits of regulation were in the form of wealth transfer, in this case to the accounting profession as the supplier of the regulation rather than to the user of external reports.⁶⁴ The profession gained from regulating external financial reports in that the regulatory process provided job opportunities. There was more work for more accountants and the profession therefore had an incentive to maintain control over the regulation of external financial reports. Less certain was the extent to which accounting, as a new profession, put status before profits.⁶⁵ Even so, self interest provided one explanation of why standard setting could be considered a professional project for the accounting profession. This conclusion has been closely investigated and discussed in a number of studies in traditional and critical accounting and accounting history.

Studies of public choice theory supported the self interest benefits of regulating external financial reporting. Stigler, for example, showed that regulation came from producer requests rather than consumer requests. That is, the suppliers of the regulation themselves benefited from the regulation. Peltzman referred to Stigler's model as the 'producer protection' approach. He used Stigler's model of regulation to

⁶³ Keenan (2000), pp.93-119.

⁶⁴ F. Milne, 'Regulation of the Professions: An Economic Analysis,' in *Regulation and the Accounting Profession, Proceedings from the RS Gynther Conference 3-5 October 1979*, D.J.H. Watson (ed.), (Brisbane, 1981).

⁶⁵ M. Burrage and R. Torstendahl (eds), *The Formation of Professions: knowledge, state and strategy*, (London, Sage, 1990).

explain regulation in the market for financial information and proposed that wealth distribution from the use of financial information came through restricted access to that information, that is, restricted entry to the market, and through a higher price for the information than would have been the case without the regulation.⁶⁶ Not all researchers agreed with Peltzman's conclusions. Hirshleifer, for example, noted that the regulators of financial information themselves were an interested group in the market and that Peltzman's model did not allow for possible competition among different regulatory agencies.⁶⁷

Cost/benefit analysis and producer/consumer models, while going some way in explaining the participation of the accounting profession in regulating external financial reporting, had the limitations of neo-classical economic models that some researchers considered significant.⁶⁸ As Hirshleifer pointed out,

A criticism of economic models of regulation is that they may be too simple and hence unrealistic. Economic efficiency is greatest when those demanding regulation and supplying it have equal and complete knowledge of the regulation. This is not possible in real life.⁶⁹

Simplifying the models describing external financial reporting might involve making too many assumptions. For example, to examine demand for regulation researchers could assume that individuals acted in the same, rational way and for their own interests. Hirshleifer noted that it was unrealistic to assume perfect knowledge for those demanding and those supplying regulation, thus making economic models less rigorous. Simplifying the process exaggerated the level of control over supply and demand of a good or service and minimised the real life diversity of producers and consumers.⁷⁰

From later in the 1970s, studies of the regulation of external financial reporting, and particularly the self interest role of the accounting profession as a regulator, began using an empirical approach on the grounds that such research was objective and open to verification by observation. Empirical studies during this time included 'simple cross-sectional description of regulation,' studies of pre and post

⁶⁶ S. Peltzman, 'Toward a more general theory of regulation,' *Journal of Law and Economics*, 19:2 (1976), pp.211-240. Rahman (1992) used Peltzman's model of the regulatory process to explain the creation of ASRB.

⁶⁷ J. Hirshleifer, 'Comment on Toward a more general theory of regulation,' *Journal of Law and Economics*, 19:2 (1976), pp.241-244.

⁶⁸ Booth and Cocks (1990).

⁶⁹ Hirshleifer (1976), p.241.

⁷⁰ Seneviratne (1999), p.18; B.D. Merino and A.G. Mayper, 'Accounting History and Empirical Research,' *Accounting Historians Journal*, 20:2 (1993), p.237.

regulatory periods, the impact of significant events on regulation and specific cases of or changes in regulation.⁷¹ An influential model was postulated by Watts and Zimmerman in 1986.⁷² They focused on how the behaviour of institutions involved in standard setting actually led to theories on regulation. Watts had noted that

[c]orporate managers, public accountants....and others who want to use accounting procedures to achieve or prevent a wealth transfer for self interest reasons demand public interest theories as excuses for their positions. This demand for excuses leads to the production of normative accounting research (i.e., to research which prescribes a particular accounting procedure).⁷³

Watts and Zimmerman's theory was criticised, not least because, as with the neo-classical models, it was too simplistic and limited in defining the power and conflict observed in standard setting.⁷⁴ Some researchers argued whether regulating external financial reporting was able to be studied using empirical research, as some predictions could be distorted by accounting regulation.⁷⁵ Solomons, for example, noted that regulating through accounting standards was normative, so empirical research was not wholly useful.⁷⁶ Firms, whether large or small, he said, were inconsistent in their reaction to proposed standards. As an example, he observed that the theory did not take account of the positions taken by American public accounting firms on FASB issues.⁷⁷ Solomons did, however, see the usefulness of empirical research to decide on alternative accounting methods through market association and predictive value tests.

⁷¹ Richardson and Kilfoyle (2009), p.321

⁷² Watts and Zimmerman (1986).

⁷³ R.L. Watts, 'Can Optimal Accounting Information Be Determined by Regulation?' in Buckley and Weston (1980), p.161.

⁷⁴ E.A. Lowe, A.G. Puxty and R.C. Laughlin, 'Simple Theories for Complex Processes: Accounting Policy and the Market for Myopia,' *Journal of Accounting and Public Policy*, 2:1 (1983), pp.19-42; G. Whittington, 'Positive Accounting: a review article,' *Accounting and Business Research*, Autumn (1987), pp.327-336; R.R. Sterling, 'Positive Accounting: an assessment,' *Abacus*, 26:2 (1990), pp.97-135; M.J.R. Gaffikin, 'Legacy of the Golden Age: Recent Developments in the Methodology of Accounting,' *Abacus*, 24:1 (1988), pp.16-35; A. Tinker, B.D. Merino and M. Neimark, 'The Normative Origins of Positive Theories: Ideology and Accounting Thought,' *Accounting, Organisations and Society*, 7:2 (1982), pp.167-200; P.A. Mills, 'Agency, auditing and the unregulated environment: some further historical evidence,' *Accounting, Auditing and Accountability Journal*, 3:1 (1988), pp.54-66; T. Mouck, 'The rhetoric of science and the rhetoric of revolt in the 'story' of positive accounting theory,' *Accounting, Auditing and Accountability Journal*, 5:4 (1992), pp.35-56. On the other hand, G.D. Carnegie and C.J. Napier, 'Critical and Interpretive Histories: understanding accounting's present and future through its past,' *Accounting, Auditing and Accountability Journal*, 9:3 (1996), pp.7-39, say these models could be used in longitudinal studies of accounting regulatory development, thus linking with Richardson and Kilfoyle's (2009) empirical strategies. Booth and Cocks (1990).

⁷⁵ C.J. Napier, 'Research directions in accounting history,' *British Accounting Review*, 21:3 (1989), pp.237-254.

⁷⁶ Solomons (1986), p.195.

⁷⁷ Ibid.

Although empirical research was criticised for an undue emphasis on economic rather than social influences, for some years empirical research and positive accounting theory was a popular methodology used in studying the regulation of external financial reporting.⁷⁸ During the 1990s, a sociological approach to regulation became more common.⁷⁹ Critical theory emphasised the social aspects of accounting practice.⁸⁰ Laughlin, for example, saw critical accounting research as helping ‘to analyse the role of accounting thinking in the formation of regulatory processes.’⁸¹

Montagna argued the debates over the form and content of external financial reports were a sign of a conflict between what he called private value (self interest) and social value (public interest) accounting, with private value accounting dominating social value accounting.⁸² This ongoing tension in the accounting profession between acting in the public interest and acting in self interest may have contributed to some of the problems that have occurred in financial reporting.⁸³ It is possible, as discussed in the next chapter, that the tension may in part be responsible for the challenges the accounting profession has encountered in developing financial accounting theory. It is also possible that the profession’s development of financial accounting theory was a response to a perceived threat of losing control of external financial reporting and hence of a hitherto successful professionalisation mechanism.⁸⁴

Why the accounting profession became and maintained its role as standard setter has been examined in traditional and critical studies. Theoretical versus

⁷⁸ Cooper and Keim (1983); Merino and Neimark (1982). C.W. Chow, ‘The impacts of accounting regulation on bondholder and shareholder wealth: the case of the Securities Acts,’ *Accounting Review*, 58:3 (1983), pp.485-520; G.J. Benston, ‘An analysis of the role of accounting standards for enhancing corporate governance and social responsibility,’ *Journal of Accounting and Public Policy*, 1:10 (1982), pp.5-17.

⁷⁹ Robson (1994); P. Sikka and H. Willmott, ‘The power of “independence”’: defending and extending the jurisdiction of accounting in the United Kingdom,’ *Accounting, Organizations and Society* 20:6 (1995), pp.547-581.

⁸⁰ A. Tinker and M. Neimark, ‘The struggle over meaning in accounting and corporate research: a comparative evaluation of conservative and critical historiography,’ *Accounting, Auditing and Accountability Journal*, 1:1 (1988), pp.55-74; W.F. Chua, ‘Historical Allegories: let us have diversity,’ *Critical Perspectives on Accounting*, 9:6 (1998), pp.617-630; C.E. Arrington and J.R. Francis, ‘Letting the chat out of the bag: deconstruction, privilege and accounting research,’ *Accounting, Organizations and Society*, 14:1/2 (1989), pp.1-27.

⁸¹ R. Laughlin, ‘Critical Accounting: Nature, Progress and Prognosis,’ *Accounting, Auditing and Accountability Journal*, 12:10 (1999), p.76.

⁸² P. Montagna, ‘Accounting Rationality and Financial Legitimation,’ *Theory and Society*, 15:1/2 (1986), pp.103-138.

⁸³ Lee (1996) and T.A. Lee, ‘The war of the sidewardly mobile corporate financial report,’ *Critical Perspectives on Accounting*, 17:4 (2006), pp.419-455.

⁸⁴ Hines (1989).

empirical studies of the role of the accounting profession in regulating external financial reporting and economic versus social approaches to the effects of this regulation have helped to produce a clearer picture of the profession's motivations for its involvement in the regulatory process. The evidence from the actions of the New Zealand Institute and other accounting associations as standard setters confirm that Wilson's two patterns of regulation apply to the profession as standard setter. Statements by officers of the New Zealand Institute and articles in the Institute's journal illustrate the profession's motivation that it is acting in the public interest when setting accounting standards.⁸⁵ But research by academics including Watts and Zimmerman provide evidence of self interest.

It is more difficult to describe within the context of standard setting the extent to which the accounting profession has been a regulator of external financial reporting for either public or self interest reasons and most likely such conclusions are neither possible nor necessary. The profession's motives may vary over time and in particular circumstances. Whether the profession was acting in the public interest or in self interest, the profession profited because by being a regulator of external financial reporting it received economic and social benefits. As Lee noted, the accounting profession may be seen to have acted in the public interest for economic self interest.⁸⁶ Both public interest and self interest explain why the profession became a standard setter and the link between the public's perception of the profession and the effectiveness of external financial reports. The profession's reputation was determined in part by its role as standard setter. Thus standard setting may be considered an example of professional behaviour.

The standard setting process

This section begins the discussion on how the accounting profession set accounting standards, a discussion that continues in the next chapter. The section begins with an explanation of the nature of accounting standards and how that affected the profession's standard setting process. The section goes on to explore the implications of the relationship between the profession and other interested groups on the standard setting process.

⁸⁵ Spence (1938); D. Pickens and S. Bailey, 'The Institute and government relations: what do you think?' *The Chartered Accountants' Journal*, 87:10 (2008), p.24.

⁸⁶ Lee (1995).

The nature of accounting standards

Accounting associations, in New Zealand as elsewhere, developed accounting standards whose forms, along with related issues of disclosure and measurement of entity transactions, were the subject of much debate. Accounting standards are authoritative statements that guide the preparation and presentation of financial statements.⁸⁷ They are a formal notification that has the approval of the relevant authority, detailing how certain classes of transactions must be accounted for and what financial information must be disclosed to achieve the objectives of financial statements. All entities must disclose some financial information. Which entities and what information depends upon the country and the use of the information. Legislation determines which entities must prepare external financial reports and if these reports must comply with accounting standards. Usually these are entities listed on a stock exchange because they are able to obtain capital from a variety of sources, although government may require other entities to prepare external financial reports.⁸⁸

Accounting standards have consequences. They are more than rules.⁸⁹ They may be a practical response to accounting issues or a means for entity development. They determine which entity activities must be disclosed, how they are measured and the extent of the disclosure. Standards may be 'a pragmatic solution to a troublesome problem.'⁹⁰ For example, the early history of standards in New Zealand and overseas highlighted the practical nature of accounting as the accounting profession attempted to resolve inconsistencies in measurement and disclosure of items in financial statements. In addition, 'accounting standard setting is change management. It's about taking organisations from where they are now and moving the transferring of the financial reporting forwards. That doesn't just mean adding more rules.'⁹¹ For the most part, accounting standards fulfilled a practical need, including controlling entity behaviour. They defined the minimum level of responsibility preparers of external financial reports had towards the users of the reports.⁹²

⁸⁷ Drever, Stanton and McGowan (2007), p.65.

⁸⁸ For example, as outlined in the *Financial Reporting Act 1993*.

⁸⁹ R.M. Cyert and Y. Ijiri, 'A Framework for Developing the Objectives of Financial Statements,' in *Objectives of Financial Statements*, Volume 2, J.J. Cramer Jr. and G.H. Sorter (eds), (New York, American Institute of Certified Practising Accountants, 1974).

⁹⁰ Solomons (1986), p.189.

⁹¹ A.L. Mackenzie interview 19 June 2009.

⁹² B.D. Merino and L.T. Coe, 'Uniformity in Accounting: a historical perspective,' *Journal of Accountancy*, 146:2 (1978), pp.62-69.

Accounting standards may be seen as ‘instruments to guide measurement of economic activity, rules of conduct to restrain unfair economic behaviour and incentives to promote ethical behaviour in furthering national goals.’⁹³ Accounting standards determined the measurement and presentation of items in financial statements. In an ideal situation, as Scott noted, users of financial statements would have maximum information about those items to participate in decision-making.⁹⁴ For several decades, the accounting profession debated what those items should be and their level of presentation, but in general the profession agreed that disclosure should provide adequate information to satisfy users.⁹⁵ Zeff concluded that standards were also ‘instruments of social control’, allowing those who would not otherwise understand or have access to financial information to acquire that information.⁹⁶ The standards facilitated efficient comparisons of external financial reports from a number of entities and interpretation of that financial information.⁹⁷

At first reading the definitions seem reasonable and achievable but those who have attempted to explain exactly what the definitions mean have had difficulty describing them and justifying the terms used in the definitions. This debate is very much like the debates over what is meant by ‘true and fair’ and what is meant by ‘quality’ when talking about the quality of standards or reports. Pownall and Schipper, for example, highlight this difficulty in the criteria used by the SEC to describe quality external financial reporting. They discuss the complexity of meaning in the SEC’s terms ‘comprehensive, consistent, clear, transparent,’ noting that while empirical evidence may be available in entity reports it is hard to quantify these terms in a meaningful way.⁹⁸ Some researchers have tried, gathering empirical evidence by contrasting the application of American standards with applications in other countries. That is, looking at the outcome of applying standards but deciding that this is useful only by comparing across countries. Norton considered American standards against

⁹³ D. Mosso, ‘Regulation and the Accounting Profession: An FASB Member’s View’ in Buckley and Weston (1980), pp.129 and 130.

⁹⁴ Scott (2010), p.112.

⁹⁵ D.R. Myddelton, *Accountants without Standards? Compulsion or Evolution in Company Accounting*, (London, 1995), p.6.

⁹⁶ S.A. Zeff, ‘The rise of economic consequences,’ *Journal of Accountancy*, 146:6 (1978), p.62. This use of accounting standards requires further study.

⁹⁷ Solomons (1986), pp.185-187

⁹⁸ Pownall and Schipper (1999), pp.259-280.

Australian and Street *et al.* contrasted American and international standards.⁹⁹ Weetman and Gray compared American entity reports with reports from the United Kingdom, Sweden and the Netherlands focussing on the impact application of standards had on profit levels.¹⁰⁰ Using this criterion, they concluded that British and Dutch standards allowed for higher levels of profit than did American and Swedish standards, which they called conservative. Hellman disagreed. Her study comparing American and Swedish reports showed that American standards were more conservative.¹⁰¹ The studies have in common a similar methodology but the outcomes are varied enough to confirm the difficulty of finding a suitable way to research quantitatively what are qualitative criteria, such as the nature of the information available in external financial reports and the expertise of users to process that information.¹⁰²

Although defining quality standards is better done qualitatively than quantitatively the definitions are useful in that they convey the intent of the standards and the motives of the regulators. The content and format of external financial reports and the motives of the regulators are apparent in the terms used in defining what is a quality accounting standard. Mosso and Zeff's definitions, for example, emphasise public interest. Myddelton's description of standards places more importance on fulfilling user needs. Macdonald's definition, on the other hand implies a self interest motive for using standards.¹⁰³

Accounting standards may be principle-based or rule-based. The difference between the two types of standard is in the scope for professional judgement in the application of the standard. A principle-based accounting standard 'contain[s] a substantive accounting principle that focuses on achieving the accounting objective of the standard. The principle is based on the objective of accounting in the conceptual framework. That is, standards are concerned with the application of concepts outlined

⁹⁹ J. Norton, 'The impact of accounting practices on the measurement of profit and equity: Australia versus the United States,' *Abacus* 31:3 (1995), pp.178-200; D.L. Street, N.B. Nichols and S.J. Gray, 'Assessing the acceptability of International Accounting Standards in the US: an empirical study of the materiality of US GAAP reconciliations by non-US companies complying with IASC standards,' *The International Journal of Accounting* 35:1 (2000), pp.27-63.

¹⁰⁰ P. Weetman and S.J. Gray, 'A comparative international analysis of the impact of accounting principles on profits: the USA versus the UK, Sweden and the Netherlands,' *Accounting and Business Research* 21 (Autumn) (1991), pp. 363-379.

¹⁰¹ N. Hellman, 'A comparative analysis of the impact of accounting differences and return on equity,' *European Accounting Review* 2:3 (1993), pp.495-530.

¹⁰² Scott (2010), p.112.

¹⁰³ D. Macdonald interview 14 July 2009.

in a conceptual framework.’¹⁰⁴ A rule-based accounting standard ‘contain[s] specific details and mandatory definitions that attempt to meet as many potential contingencies and situations as possible.’¹⁰⁵

The dilemma for the profession in deciding whether accounting standards should be principle-based or rule-based is the degree of subjectivity and judgement the individual accountant should exercise. To be effective, principle-based standards require independence and objectivity, which means that clients and the public need to know they can trust the profession. Rules-based standards avoid the issue of subjectivity but to cover all possible situations they become lengthy and difficult to interpret.

Principle-based accounting standards, written in general terms, make it possible for preparers of external financial reports to exercise professional judgements. To be successful and ensure consistency in judgement, the standards must follow the objectives and concepts of a set conceptual framework. Preparers and users of the external financial reports know and accept the assumptions and principles of the framework. A difficulty with principle-based accounting standards is that, even with a framework, the standards only give direction and preparers may have problems deciding on the appropriate approach to take when exercising professional judgement. The financial information disclosed may vary according to the activity, making consistency in disclosure difficult.

Rule-based accounting standards are more detailed than principle-based standards and may have a less logical basis. These standards try to anticipate all possible situations and give preparers of external financial reports as exact a direction as possible. If users of the reports know the standards, then they know how the reports were prepared and more importantly, are able to compare the reports of different entities. Rule-based accounting standards may be too prescriptive and the standards may become too complicated.¹⁰⁶ There is also a danger that preparers may follow the rules too closely, the letter and not the spirit of the standard, forgetting their obligation to provide users with adequate financial information. That is, preparers may follow form over substance in creative compliance to the extent that the financial information

¹⁰⁴ Gaffikin (2008), p.90.

¹⁰⁵ Drever, Stanton and McGowan (2007), p.66.

¹⁰⁶ Solomons (1986), p.191.

is misleading.¹⁰⁷ The accounting profession may also stop thinking about trying to improve the standards, reducing the level of professional judgement and responsibility.¹⁰⁸ Another disadvantage of rule-based accounting standards is that in trying to cover all possible situations, the rules may become too detailed. Smaller businesses could suffer when this happens because the costs of preparing external financial reports increase. Solomons called this ‘standards overload.’¹⁰⁹

Although all accounting standards have elements of both principles and rules, in general standards in the United Kingdom, Australia and New Zealand are more principle-based than rule-based while, until recently, accounting standards in the United States were more rule-based. Today, with the increasing use of International Financial Reporting Standards (IFRS), most countries use principle-based standards. While the accounting profession in English-speaking countries has a common British origin, the American development of rule-based standards was a response to the 1929 Stock Market Crash, the Great Depression of the 1920s and 1930s and especially the litigious nature of American society relative to other countries. Prescriptive rules are more expensive to draft and implement. The new rules emanating from the 2002 Sarbanes-Oxley Act in the United States, for example, were costly to apply.¹¹⁰ However, the debate on rule-based accounting standards versus principle-based accounting standards continues, as with issues of measurement and disclosure.¹¹¹ The Sarbanes-Oxley Act, for example, instructs the Securities Exchange Commission (SEC) to investigate the implications of implementing a principles based system.¹¹² But, as Scott notes, the debate should not be about which system is better, for the social and economic structure in a society should determine which system is used.¹¹³

Some studies have been critical of the accounting profession’s efforts in standard setting. Cooper and Deo noted that accounting standards were too vaguely worded to be useful as a regulatory mechanism.¹¹⁴ Benston looked at the implications

¹⁰⁷ D. McBarnet and C. Whelan, ‘The Elusive Spirit of the Law: Formalism and the Struggle for Legal Control,’ *Modern Law Review*, 54 (1991), pp 848-873.

¹⁰⁸ *Ibid.*, p.194

¹⁰⁹ *Ibid.*, p.191.

¹¹⁰ J. Hagen, *ICANZ Brand Launch*, 2005. The Act, which was a response by the United States Congress to financial scandals such as Enron, legislated for more oversight of and accountability from auditors.

¹¹¹ M.W. Nelson, ‘Behavioural evidence on the effects of principles- and rules- based standards,’ *Accounting Horizons*, 17:1 (March 2003), pp.91-105.

¹¹² K. Schipper, ‘Principles-based accounting standards,’ *Accounting Horizons*, 17:1 (2003), pp.61-73.

¹¹³ Scott (2010), p. 111.

¹¹⁴ Cooper and Deo (2005), p.162.

of the introduction of the 1933 and 1934 Securities Acts on standard setting in the United States, concluding that the legislation did not improve the level of disclosure in external financial reports.¹¹⁵ Watts agreed, noting that the effects on the public of implementing the Securities Act had been at the expense of the public, while Buckley and O'Sullivan showed that the SEC contributed to problems in regulating financial reporting in the United States.¹¹⁶ However, Cooper and Keim disagreed, noting that although public interest was not served to the extent claimed, costs would still be incurred in alternative regulatory systems and the SEC was, by comparison, relatively inexpensive.¹¹⁷

The accounting profession has also not solved the two problems of measurement and disclosure in external financial reports and cannot within itself agree on what needs to be done. In a survey of New Zealand accountants in 2006, 60% of respondents favoured giving full disclosure in external financial reports, releasing more information than required but what the preparer of the reports thought necessary to be useful for decision-making, while 40% favoured minimum disclosure, that is, just what is required by law.¹¹⁸ Although the majority of respondents preferred entities to disclose more financial information than legislation or regulation required, the minority view was significantly high. Possibly those holding the minority view were aware of the disadvantages of regulation, such as when regulations fail to achieve their purpose. This may happen when political interference is strong and influential lobbying is one-sided, giving cause to reconsider the motives of the accounting profession in setting standards.

Debates on the nature of accounting standards are important because quality external financial reporting is becoming more essential in expanding and globalising economies. In these changing circumstances the future role of the accounting profession in standard setting is debatable with questions being asked about who should determine what standards should be produced and to what entities the

¹¹⁵ G.J. Benston, 'The value of the SEC's accounting disclosure requirements,' *Accounting Review*, 44:3 (1969), pp.515-532 and 'Required disclosure and the stock markets: an evaluation of the Securities Exchange Act of 1934,' *American Economic Review*, 63:1 (1973), pp.132-155. For critiques of Benston's work, see, among others, Merino and Neimark (1982), Okcabol and Tinker (1993) and Ely and Waymire (1999).

¹¹⁶ Watts (1980); J.W. Buckley and P. O'Sullivan, 'Regulation and Public Accounting: What are the Issues?' in Buckley and Weston (1980), p.2.

¹¹⁷ Cooper and Keim (1983).

¹¹⁸ G.A. Liyanarachchi, 'Aiming for greater corporative transparency,' *The Chartered Accountants' Journal*, 85:3 (2006), pp.29 and 30.

standards should apply.¹¹⁹ Standard setting as a means of professionalisation for accounting is therefore also open to debate, not least because one of the changing circumstances is the level of government involvement in the process.

Standard setting as a political process

The regulatory regime in setting accounting standards is characterised by a distinction between the standard setters and those applying or enforcing the standards. Although the accounting profession has dominated membership in non-state national standard setting bodies, standard setting is necessarily a political process in that the accounting associations, developing accounting standards on behalf of the profession, have not worked alone. Other interested groups, such as the Stock Exchange, producer organisations, government and government appointed bodies have participated or intervened in the application or enforcement of standards. Of these other groups, the most important was the state.

The relationship between the profession and the state in standard setting has changed in the past few decades. As seen in New Zealand and elsewhere governments at different times encouraged the accounting profession to undertake the development of accounting standards, provided legal backing for the enforcement of these standards and responded to lobbying from the public, the profession and other interested groups. When the government does intervene, it may do so in a number of ways, from directly interfering to indirectly monitoring the process through government appointed agents, who themselves may be standard setters or simply standard approving bodies.

Direct intervention in standard setting was obvious in the European Union, for example, when accounting standards were subject to the 8th Company Law Directive.¹²⁰ In countries such as the United Kingdom, United States, Australia and New Zealand, government involvement in standard setting was usually more indirect. An advantage for the state in leaving standard setting to the accounting profession was that the profession, as the group most expert in doing so, was in the best position to produce necessary standards. But, as the history of standard setting shows, there were times when there was increased demand for state intervention, such as when there was

¹¹⁹ D. Solomons, 'The Political Implications of Accounting and Accounting Standard Setting,' *Journal of Accounting and Business Research*, (Spring 1983), pp.107-118.

¹²⁰ With the European adoption of International Financial Reporting Standards in 2005, the situation in Europe is more analogous to that in countries of British origin.

high inflation during the 1970s.¹²¹ The result, as some researchers have noted, is that government intervention is cyclical with company scandals being followed by more legislation and regulatory reform.¹²² Several times in the past century both the accounting profession and the state have responded to financial scandals that have blamed in part on inadequate financial information in external financial reports. The result was usually an increase in the regulatory nature of the standards, whether by the standard setters or the standard enforcers.

Lee *et al.* illustrated this with their discussion of the link between entity failures and responses by the profession.¹²³ The Royal Mail scandal in the United Kingdom and collapse of Insull Utility in the United States in the 1920s, for example, ultimately led to standards themselves and, in the United States, to the creation of the SEC. Lee *et al.* also noted that the profession in the United Kingdom and Australia responded to entity failures in the 1990s, such as HIH Insurance in Australia and Maxwell Communications in the United Kingdom, with efforts to improve the theoretical framework for standards, while the Enron scandal in the United States earlier this century reinforced the American profession's attempts to improve accounting practice. 'High profile corporate collapses in the United States...have triggered a fundamental shake up in governance principle and practice worldwide.'¹²⁴ The profession's responses were to make standards more credible. State responses were usually legislative. Earlier this decade, for example, the United States Government responded to the Enron collapse by passing legislation that further regulated financial reporting.¹²⁵ Both responses made standard setting more regulatory. The history of standard setting in New Zealand also shows that government interest in the quality of external financial statements waxes and wanes with public pressure, as seen in the creation of the ASRB in 1993 following the 1987 share market collapse, and that the consequence was more regulation. The ASRB was a statutory body that authorised now mandatory New Zealand standards. Lee *et al.* concluded that profession and state responses to entity failures disadvantaged the

¹²¹ K. Robson, 'Inflation accounting and action at a distance: The Sandilands episode,' *Accounting, Organizations and Society*, 19:1 (1994), pp.45-83.

¹²² C.W. Nobes, 'Cycles in UK standard setting,' *Accounting and Business Research*, 21:83 (1991), pp.265-274; Cooper and Deo,(2005).

¹²³ Lee *et al.* (2009).

¹²⁴ R. Tiffin, 'Stand Up the Chartered Accountant,' *Special Brand Launch of The Institute of Chartered Accountants of New Zealand*, 2005.

¹²⁵ The Sarbanes-Oxley Act 2002.

profession because instead of improving the standards the measures led to tensions between public expectations of the profession and what it could actually achieve in improving external financial reporting.¹²⁶

Other researchers considered that government intervention in standard setting was not always to the disadvantage of the profession. Increasing regulation could paradoxically reduce costs and promote change. Richardson and Kilfoyle saw that ‘the potential for government intervention may be considered an effective and low cost form of regulation.’¹²⁷ They noted the results of a study undertaken by J.E. Davis in 1999, where stock exchanges in the United States in the 1930s introduced rules on financial disclosure at times when the government was investigating them. Sometimes this threat of government intervention was an advantage for the profession. Daniels said that outside pressure made it easier for the leaders in an organisation to persuade members to change.¹²⁸ Watson noted that in the United States the accounting profession benefited when the government or its agencies demanded more disclosure as the result was more work for the accountant.¹²⁹ This may in part explain why the American profession accepted further regulation of external financial reporting, although that has not stopped the accounting profession objecting to government interference in developing accounting standards.¹³⁰

The state could also benefit from intervening in regulation. Although Richardson and Kilfoyle saw the 1930s Securities Acts in the United States as ‘a straightforward application of classical public interest theory to the regulation of financial reporting’, the legislation could be considered rather as the government acting in self interest to maintain control of what was becoming a strong American business sector.¹³¹ That is, the American government used the accounting profession to control this sector, with the profession accepting this because political pressure on it was reduced. Thus, although government intervention is often stated as being in

¹²⁶ Lee *et al.* (2009), p.408.

¹²⁷ Richardson and Kilfoyle (2009), p.323.

¹²⁸ J.E. Davis (1999) in Richardson and Kilfoyle (2009), p.326. Daniels in Freidson (1973), p.46.

¹²⁹ Watson (1981).

¹³⁰ *Ibid.*

¹³¹ Richardson and Kilfoyle (2009), p.322. B.D. Merino and M.D. Neimark, ‘Disclosure regulation and public policy: a socio-historical reappraisal,’ *Journal of Accounting and Public Policy*, 1:1 (1982), pp.33-57; B.D. Merino and A.G. Mayper, ‘Securities legislation and the accounting profession in the 1930s: the rhetoric and reality of the American dream,’ *Critical Perspectives on Accounting*, 12:4 (2001), pp.501-525.

response to public demands, state self interest may underlie its actions.¹³² Although public confidence in the truth and fairness of external financial reports was important for economic viability, the government could use 'public interest' for its own political purposes. This could happen, for example, when government, responding to a financial crisis by introducing more regulation, wanted to be seen to be responding to public concerns, even if the political responses lacked substance.¹³³ Gaa saw the interaction between government and the accounting profession as a social contract between the two institutions, with both benefiting.¹³⁴

In such a contract, the profession wanted to maintain the right to monopoly and autonomy in standard setting, utilising expert judgement in regulating external financial reporting. Autonomy is not necessarily the most appropriate way of describing the ability to exercise professional judgement. Evetts postulated that discretion is a more appropriate term given the fact that the majority of professionals such as accountants are employees not self-employed.¹³⁵ As employees they would be under the direction of an employer, most probably another professional. Evetts called this form of regulation acquired regulation, which is externally directed but internally devised. Standard setting may be considered acquired regulation as in many countries, including New Zealand, where, in statutory bodies were created to be the authorising agents for mandatory standards but the drafting of the standards remained the responsibility of the accounting organisations and a professional activity.

But the accounting profession has had mixed success in drafting standards that fulfilled multiple political, economic and social expectations. The public has often had to bear the brunt of the economic consequences of continuing entity failure and the blame for this has in part been attributed to inadequate external financial reporting. As a result, by the end of the century the state became more closely involved in regulating external financial reports. At first the state confined its involvement in standard setting, even in the United States, to indirect oversight through either

¹³² R.G. Walker, F.L. Clarke and G.W. Dean, 'Use of CCA in the Public Sector: Lessons from Australia's Experience with Public Utilities,' *Financial Accountability and Management* 16:1 (2000), pp.1-32 and T. Clarke, 'Cycles of crisis and regulation: the enduring agency and stewardship problems of corporate governance,' *Corporate Governance: An International Review*, 12:2 (2004), pp.153-161.

¹³³ Watts and Zimmerman (1986). Wilson (1974). See also T.J. Fogarty, M.E.A. Hussein and J.E. Ketz, 'Political Aspects of Financial Accounting Standard Setting in the USA,' *Accounting, Auditing and Accountability Journal*, 7:4 (1994), pp.24-46.

¹³⁴ J.C. Gaa, 'The expectations game: regulation of auditors by government and the profession,' *Critical Perspectives on Accounting*, 2:1 (1991), pp.83-107

¹³⁵ J. Evetts, 'New directions in state and international professional occupations: discretionary decision-making and acquired regulation,' *Work, Employment and Society*, 16:2 (2002), pp.341-353.

independent public sector agency or private sector authorities. Indirect government regulation of external financial reporting, via public sector agencies, whether independent or otherwise, has some advantages.¹³⁶ A government agency was in a better position to advocate for the public interest and less vulnerable to interference from interested groups in the private sector.

Although the state could profit from intervening in regulation, there were disadvantages such as the loss of independence of the authorising bodies. The authority for such agencies comes from legislation and they are therefore subject to political direction with individual members on the agencies being political appointments. The agencies also rely on government financial support and may be vulnerable to resource cuts. They may also have difficulty attracting qualified and skilled personnel, thus compromising the quality of the standards produced.¹³⁷ That is, the agencies were at risk of undue influence by interested parties.¹³⁸ The accounting profession was also at risk. Benson concluded that while accounting standards required legislative authority, the profession was in danger of state control of its professional activities beyond standard setting.¹³⁹

Being a standard setter carried further uncertainties for the accounting profession. How successful standards have been in effecting quality external financial reporting is debatable when the standard setters and preparers of external financial reports remain open to accusations of acting in their own self interest.¹⁴⁰ Sometimes the profession itself increased the costs of regulation as when it failed to carry out adequate reviews of the standard setting process, leaving inadequate standards that caused unnecessary additional problems for preparers and users of external financial reports. Inadequately drafted standards and an undue emphasis on the rules, as West noted, may stultify innovation and at times lead to creative ways of avoiding regulation that can leave the accounting profession open to criticism.¹⁴¹ These issues highlighted the importance of the relationships between the accounting profession, its clients and interested groups in addition to its relationship with the state.

¹³⁶ Benston (1976) and Mosso (1980), P.M. DeMarzo, M.J. Fishman and K.M. Hagerty, 'Self-Regulation and Government Oversight,' *Review of Economic Studies*, 72:3 (2005), p.700 and G.J. Benston, M. Bromwich, R.E. Litan and A. Wagenhofer, *Worldwide Financial Reporting: The Development and Future of Accounting Standards*, (New York, 2006).

¹³⁷ Mosso (1980).

¹³⁸ Cooper and Deo (2005).

¹³⁹ E.P. Benson in Watson (1981), p.29.

¹⁴⁰ T.A. Lee, F.L. Clarke and G.W. Dean, 'Scandals,' in Edwards and Walker (2009), pp.414 and 415.

¹⁴¹ West (2003).

Institutions other than government may influence standard setting, including the stock exchange, banks and large accounting firms.¹⁴² The stock exchange was one institution intimately involved in the effects of the work of accountants. Because stock exchanges listed public entities, they were interested in the external financial reports issued by those entities. Investors relied on the financial information in those reports when making decisions. Therefore, stock exchanges demanded quality external financial reports and were able at times to pressure the accounting profession into action, such as in New Zealand in 1973 when the Institute produced a standard on equity accounting.¹⁴³ Walker and Mack noted that businesses with interests in a number of countries tended to produce financial reports that reflected the rules of the country that had the most stringent regulations.¹⁴⁴ They concluded that businesses did this to minimise costs in producing reports. The legal system could also influence standard setting. In the United Kingdom, for example, a few legal rulings on contracts have influenced external financial reporting.¹⁴⁵ New Zealand has not experienced the same litigation but British practice has influenced New Zealand practice, so indirectly the law has affected the regulation of external financial reporting in New Zealand.

Harding and McKinnon noted that interested groups could have different views on the suitability of particular accounting standards and for that reason, the accounting profession needed to work with other institutions.¹⁴⁶ Several studies have been undertaken focussing on the relationship between the accounting profession and other institutions in standard setting.¹⁴⁷ Booth and Cocks, for example, analysed power and conflict in standard setting using Clegg's theory of power through hegemonic domination.¹⁴⁸ Booth and Cocks interpreted standard setting as a nexus of power and sometimes conflict between three institutions, the government, the

¹⁴² Richardson and Kilfoy (2009).

¹⁴³ Zeff, (1979), p.56.

¹⁴⁴ R.G. Walker and J. Mack, 'The influence of regulation on the publication of consolidated statements,' *Abacus*, 34:1 (1998), pp.48-74.

¹⁴⁵ P.A. Mills, 'Accounting History as Social Science: a cautionary note,' *Accounting, Organizations and Society*, 18:7/8 (1993), pp.801-803.

¹⁴⁶ N. Harding and J. McKinnon, 'User involvement in the standard setting process: A research note on the congruence of accountant and user perceptions of decision usefulness,' *Accounting, Organizations and Society*, 22:1 (1996), pp.55-67.

¹⁴⁷ R.C. Laughlin and A.G. Puxty, 'Accounting Regulation: An Alternative Perspective,' *The Journal of Business Finance and Accounting*, 10:3 (1983), pp.451-479; H. Willmott, R.C. Laughlin and A.G. Puxty, 'Accounting Regulation: An Alternative Perspective: A Comment' Reply,' *The Journal of Business Finance and Accounting*, 11:4 (1984), pp.585-596; H. Willmott, 'The Auditing Game: A Question of Ownership and Control,' *Critical Perspectives on Accounting*, 2:1 (1991), pp.109-121.

¹⁴⁸ S. Clegg, *The Theory of Power and Organisation*, (London, Routledge and Kegan Paul, 1979); Booth and Cocks (1990).

accounting profession and corporate management.¹⁴⁹ Rather than conflict, other researchers saw institutions creating a regulation by ‘bargaining’ within regulatory space or in constellations.¹⁵⁰ Regulatory space, a sociological concept first introduced by Hancher and Moran, is a mechanism that allows institutions to define their interests and interact. Hancher and Moran visualised institutions working together in a ‘space’ defined ‘by the range of regulatory issues subject to public decision.’¹⁵¹ Who occupied this space and how those in the space interacted depended on the institutions using the space and the process under review. Young called regulatory space ‘a space for tinkering with existing practices...’ and noted that because the space is just that, it was open for interested groups to enter.¹⁵² That is, regulatory space allowed interested groups to interact and contribute to the decision-making process. The focus in regulatory space was on the relationship between the groups rather than who the groups were, unlike a market model that emphasised the suppliers and users. Robson proposed a constellation of groups interacting to create regulations.¹⁵³ His concept of a constellation was similar to that of Hancher and Moran’s regulatory space but broader, to encompass the influence of internal systems on group interactions.¹⁵⁴

Young used the FASB’s process as an example of how a standard setter worked. First, the standard setter must define the gap between accounting claims and accounting practices. The standard setter then set the regulatory space and decided which groups would operate within that space and have a say in the creation of the accounting standard.¹⁵⁵ Young assumed that the standard setter controlled the regulatory space. This may not always be the case. In New Zealand, the current standard setting body, the Accounting Standards Review Board (ASRB), does not initiate standard writing, but leaves producing the standard to others. The New Zealand standard setting process fits well within the models for institutional

¹⁴⁹ Booth and Cocks (1990), p.516.

¹⁵⁰ Seneviratne (1999), p.9 quoting Cooper, Lowe, Puxty, Robson and Willmott (1988).

¹⁵¹ L. Hancher and M. Moran, ‘Organising Regulatory Space’ pp.271-299 in *Capitalism, Culture and Regulation*, (eds) L. Hancher and M. Moran, (Oxford, 1989), p.277.

¹⁵² J.J. Young ‘Outlining regulatory space: agenda, issues and the FASB’ *Accounting, Organizations and Society* 19:1, (1994), p.85. quoting Hancher and Moran (1989), p.277.

¹⁵³ K. Robson, ‘On the Arenas of Accounting Change: The Process of Translation,’ *Accounting, Organizations and Society*, 16:5/6 (1991), pp.547-570 and ‘Accounting Policy making and ‘interests’: accounting for research and development,’ *Critical Perspectives on Accounting* 4:1 (1993), pp.1-27.

¹⁵⁴ See also S. Burchell, C. Clubb and A. Hopwood, ‘Accounting in its social context: Towards a History of Value Added in the United Kingdom,’ *Accounting, Organizations and Society*, 5:1 (1985), pp.381-413. Richardson and Kilfoyle (2009), p.320 defined models such as these as negotiated order theories.

¹⁵⁵ Young (1994).

relationships developed to explain standard setting. The New Zealand Institute dominated standard setting but has not acted alone.

Solomons summarised the relationship between standard setters and other groups as a political process because the standards affected human behaviour. 'Standards should not be political but standard setters should be.'¹⁵⁶ Entities will not always willingly disclose financial information so standard setters must work on behalf of report users. The standard setting process has evolved from the interaction of these institutions, if not from the institutions participating in the standard setting process, then from their lobbying the accounting profession or the government. Lobbying implies that an institution has the financial and social means to communicate with decision makers and influence the regulatory outcome. Lobbying also implies that an institution is capable of capturing a market. A number of events in accounting history show the influence of lobbying.¹⁵⁷ In the United Kingdom, Maltby noted that early Companies Acts had provisions that favoured large investors.¹⁵⁸ Mattli and Buthe also observed that American standards were written to suit the interests of entities.¹⁵⁹ Possibly the greatest influence on standard setting from non-government groups has come from within the accounting profession. Cooper and Robson argued that because the large accounting firms were the major implementers of accounting standards, how they applied the standards affected the outcome of the regulatory process and gave authority to the standards.¹⁶⁰ Large accounting firms have dominated the standard setting committees within the professional associations.¹⁶¹ In New Zealand, the Institute's standard setting committees and Boards have usually had representatives from the large accounting firms on them.¹⁶²

Regulators also received political pressure when interested groups lobbied in self interest, whether for or against regulation of external financial reporting.

Richardson and Kilfoyle noted '[o]verall, the evidence suggests that the economic

¹⁵⁶ Solomons (1995), p.226.

¹⁵⁷ S.A. Zeff, 'Political Lobbying on Accounting Standards- national and international experience,' in *Comparative International Accounting*, C.W. Nobes and R. Parker (eds), (London, 2006), pp.189-220; B.A. Rutherford, *Financial Reporting in the UK: A History of the Accounting Standards Committee*, (London, 2006).

¹⁵⁸ J. Maltby, 'UK joint stock companies legislation 1844-1900: accounting publicity and 'mercantile caution', ' *Accounting History*, 3:1 (1998), pp.9-32.

¹⁵⁹ W. Mattli and T. Büthe, 'Accountability in Accounting? The Politics of Private Rule Making in the Public Interest,' *Governance*, 18 (2005), p. 402.

¹⁶⁰ D.J. Cooper and K. Robson, 'Accounting, Professions and Regulation: Locating the sites of Professionalization,' *Accounting, Organizations and Society*, 31:4/5 (2006), pp.415-444.

¹⁶¹ Cooper and Robson (2006).

¹⁶² Chapter 9.

consequences of financial disclosure regulation attract considerable lobbying pressure and may reflect the interests of a subset of society.’¹⁶³ In New Zealand, any lobbying would be relatively informal for the New Zealand standard setting process allowed formal comment by individuals and institutions on exposure drafts issued before a standard was finalised. But the small size of the population and the close relationship between the accounting profession, entities and the government also allowed strong informal communication between interested groups.

The literature shows that continually changing economic circumstances, the self interest motives of interested groups, including government and the sometimes conflicting public versus self interest motives of the accounting profession itself affected how the profession carried out its role as standard setter. The profession continuing to set standards even though its effectiveness as standard setter has been challenged may be interpreted as meaning that regulation has nevertheless succeeded, for otherwise the profession would have ceased being a standard setter. If this is so, then one conclusion that may be drawn is that the profession does so because the benefits of acquiring and maintaining professional reputation outweigh the costs of standard setting. That is, standard setting may be considered one means of professionalisation and as a professional project the profession as standard setter uses the collective action of its associations to maintain monopoly of drafting standards. As the discussion on the literature shows, the profession as standard setter has an ongoing relationship with the state and other groups, gaining authority from legislation and working with government and other agencies to set accounting standards. Equally, the challenges to the profession, such as the continual reviewing and upgrading of the financial reporting regime and state intervention may indicate that regulating external financial reporting requires monitoring from outside the profession. In this case, standard setting is an uncertain means of professionalisation for it would be less likely to be considered a professional activity and there would be less incentive for the profession to continue as standard setter. The New Zealand case study shows both situations. Even though the profession is about to relinquish its role as standard setter the fact that it set accounting standards for the past seventy years suggests that this was an activity that gave professional status.

¹⁶³ Richardson and Kilfoyle (2009), p.325

Conclusion

At the beginning of the twentieth century, most regulation of external financial reporting was by government legislation. By the end of the century these reports were still covered by legislation but given detail in accounting standards. This chapter explored the process of change in regulating external financial reporting by examining why the accounting profession became the standard setter and considering two factors affecting how the profession sets standards, the nature of accounting standards and the profession's relationships with the state and other groups interested in external financial reporting.

This chapter helps answer the 'why' research question by demonstrating that a case may be established to explain that the accounting profession became a standard setter in the public interest and out of self interest. In the context of professional reputation both motives help explain the actions of the profession as standard setter in the past seventy years and the current changes occurring in the profession as standard setter, in New Zealand and elsewhere. As this chapter shows, the profession's actions are explained when standard setting is considered professional behaviour.

Economic events along with the increasing complexity of entity ownership led to pressure on the accounting profession from government and other interested groups to provide guidelines for reporting entities.¹⁶⁴ Regulation was needed in the public interest to fulfil the multiple needs of multiple users who were otherwise not able to obtain the financial information necessary for successful decision-making.¹⁶⁵ Notwithstanding the arguments of those who say entities can regulate themselves, there were enough discontented users of external financial reports for the state to legislate and for the accounting profession to set accounting standards. The profession had the skills and knowledge to set regulations and it first produced guidelines for the reports and then sets of accounting standards.¹⁶⁶ Thus, standard setting became one service accountants delivered as professionals, making standard setting a professional activity and providing an incentive for the profession to maintain dominance as standard setter to ensure its reputation.

Consequently the profession spent much time and effort improving the standard setting process as the profession's social standing rose when the public

¹⁶⁴ Napier (2006).

¹⁶⁵ Cooper and Keim (1983).

¹⁶⁶ Dreaver et al. (2007).

perceived the profession to be acting in the public interest.¹⁶⁷ The profession did so by aiming to develop standards that were effective and efficient. To be effective standards needed entity cooperation and use as well as public trust in the profession to draft standards that fulfilled user needs of external financial reports. To be efficient the cost of producing standards, which fell immediately on the accounting profession and indirectly on preparers of the external financial reports, needed to be outweighed by the benefits to the profession, to entities and to the public.¹⁶⁸

The profession has not always found standard setting an easy form of professional activity. The multiplicity of users and their needs made it difficult for the profession to produce standards that satisfied every user. At times, entity activity has led to public questioning of the truthfulness of external financial reports and hence the effectiveness of standards, with the profession being vulnerable to accusations of not acting in the public interest.¹⁶⁹ The profession has responded in a number of ways that altered the standard setting process. As the New Zealand case study shows, sometimes the profession made the standards more regulatory or negotiated with the state and other interested groups to reduce conflicts and criticism. Throughout, the profession has maintained its dominance in standard setting.

This chapter extended the discussion on why the accounting profession became a standard setter, noting that the profession balanced public interest and self interest motives when setting accounting standards. This chapter also began a discussion on how standard setting was carried out, arguing that the increasingly regulatory nature of the standards and the profession's changing relationship with other groups in the economy, especially the state, were responses by the profession to criticism of its efforts in regulating external financial reporting. These responses also indicated that the profession was behaving in a professional manner, as per Larson's model of professional behaviour. That the profession understood standard setting was one element in maintaining its professional reputation is shown by the profession's striving to improve the quality of accounting standards through its efforts to develop financial accounting theory. This is the subject of the next chapter.

¹⁶⁷ Merino and Neimark (1982).

¹⁶⁸ Buckley and Sullivan (1980); Nelson (2003).

¹⁶⁹ DeMarzo et al. (2005).

Chapter Four: The Professionalisation Process: Developing Financial Accounting Theory

Introduction

The development of financial accounting theory was an integral part of the accounting profession's efforts to maintain its professional reputation as the profession attempted to improve the effectiveness of external financial reporting. For more than a century, the profession has debated theories and ideas to describe the basic principles of financial accounting. The profession has carried out this debate in response to questions about the effectiveness of the accounting profession's efforts in regulating external financial reporting, questions that could impact negatively on the profession's professional profile. To counter this criticism and maintain professional status, the accounting profession tried to improve accounting standards by developing financial accounting theory in the form of conceptual frameworks. While there was general agreement on what external financial reports should achieve, determining a framework for the standards governing those reports that was acceptable to a wide range of users has proven elusive.

This chapter assesses the attempts of the accounting profession to develop financial accounting theory, the extent to which the New Zealand accounting profession was involved in developing and using financial accounting theory and the significance of international cooperation and sharing of ideas and standards in this development. This chapter concludes with a summary of the findings of chapters two, three and four, relating them to the theoretical framework for the thesis: Larson's model of professional behaviour.

Financial Accounting Theory

For the most part, the development of financial accounting theory is the history of the accounting profession aiming to discover the principles or concepts underlying financial activities so as to achieve a reasonable degree of consistency in accounting standards. Financial accounting theory is important because it affects the methods of accounting chosen by preparers of external financial reports and the form and content of standards developed and authorised by standard setting bodies. Thus determining financial accounting theory is also important for the professional reputation of the accounting profession. This chapter discusses the efforts of the

accounting profession to devise a generally accepted philosophy that accounted for entity transactions.

The first difficulty for the profession in defining a theoretical basis for standard setting was the often contradictory objectives of those preparing and using external financial reports. Preparers of external financial reports were often interested in methods of accounting that allowed them to present entity transactions in a favourable light. On the other hand, the public and interested groups, such as government, were interested in the reports providing a view of an entity that enabled good economic decisions. These demands did not always coincide and the accounting profession found itself trying to develop standards that accommodated broad and contradictory reasons for external financial reports. Professional discrimination was called for. As Tweedie observed, '[g]ood accounting should be underpinned by judgement.'¹ Early attempts of the accounting profession to accommodate these contrary views came after strong and protracted debate within the profession, but did lead to guidance and direction for preparing external financial reports by describing generally accepted accounting practice (GAAP).

GAAP developed in three general phases. First, there was the identifying and describing of principles and related terms as the profession began to develop a set of accounting principles. The second phase was the creation of a number of theories that attempted to provide the necessary direction for accountants and preparers of external financial reports. These theories were principally the work of American accountants. Third was the development, in the latter decades of the twentieth century, of a series of conceptual frameworks. All phases were the target of debate and scrutiny from both inside and outside the profession which continues today as the International Accounting Standards Board (IASB) and the American Financial Accounting Standards Board (FASB) work together to develop one generally accepted conceptual framework.

Several researchers have provided syntheses of these phases in financial accounting theory. Lee, for example, has written a comprehensive summary on the evolution of accounting theory in the United Kingdom and United States, while

¹ Editorial, 'Global Perspective: interview with Sir David Tweedie,' *The Chartered Accountant*, 89:3 (2010), p.54.

Storey and Storey provided an in depth summary of the evolution of accounting theory in the United States.²

Although there was much variation in the field of financial accounting theory, the theory itself adhered to general guidelines. A theory outlines the principles underlying a method or practice making that practice understandable and replicable. 'A theory is, in effect, a message.'³ A theory of financial accounting, explaining the principles underlying the preparation of the information in financial statements, would ensure that those statements would be clear, coherent and consistent, providing an interpretation for the judgements made by accountants.⁴ Such a theory was important, because the financial statements in external financial reports contained information about an entity's financial activities and financial position, information that was of interest to several groups in the economy. Therefore, financial accounting theory evolved as the accounting profession developed its analysis of the rationale behind external financial reports to provide direction for preparers of those reports. In particular, financial accounting theory tried to explain what, and how, preparers of external financial reports should disclose an entity's financial activities. However, while accounting practice was identifiable, the principles proved more difficult to distinguish.

The accounting profession generally agreed on what a theory of financial accounting should be. To the profession, financial accounting theory should describe the general features of financial statements, enabling the statements to fulfil their purpose. That is, financial accounting theory '[should] attempt to rationalise, explain and predict accounting practice' in external financial reporting.⁵ The American profession was the first to define financial accounting theory, following several decades of ideas and propositions from individuals like Sprague and Hatfield.⁶ Gaffikin and Aitken noted the importance of individual professional accountants rather than accounting organisations in the development of early accounting theory.

² Lee (2009).Storey and Storey (1998).

³ T.A. Lee and P.W. Wolnizer (eds), *The Quest for a science of accounting: an anthology of the research of RR Sterling*, (New York, 1997), p.xxv.

⁴ A.A. Fitzgerald, 'Are there any Accounting Principles?' *The Accountants' Journal*, 35:6 (1957), p.200.

⁵ Lee (2009), p.140.

⁶ C.E. Sprague, *The Philosophy of Accounts*, (New York, Ronald Press, 1907) and H.R. Hatfield, *Modern Accounting: Its Principles and Some of Its Problems*, (New York, 1909).

They concluded that individuals had the advantage of thinking through their ideas and creating a theory, where committees would have had to reach a consensus.⁷

In 1940, in one of the first attempts to describe the general features of financial statements, Paton and Littleton saw financial accounting theory as a 'coherent, coordinated, consistent body of doctrine which may be compactly expressed in the form of standards if desired.'⁸ In 1966, the American Accounting Association defined financial accounting theory as 'a cohesive set of conceptual, hypothetical and pragmatic propositions explaining and guiding the accountant's action in identifying, measuring and communicating economic information.'⁹ Paton and Littleton's definition of financial accounting theory illustrated the link between external financial reporting and standard setting. The American Accounting Association's definition was more explicit, showing that while the theory referred to abstract ideas there was a direct relationship to accounting practice, which was important, given the practical nature of accounting methods.

A major obstacle to the accounting profession actually developing a generally accepted theory of financial accounting was the need for the profession to start from first principles. The problems began here. What were the first principles? The profession spent much of the twentieth century debating almost every step while at the same time trying to ensure that it maintained control of the process. The debates began with the nature of accounting: was it a science or an art? The answer to this question in part determined whether the approach to accounting theory would be inductive or deductive. The profession also debated terminology and measurement methods. Early debates were on the principles underlying financial accounting theory, defining and distinguishing them from doctrines, conventions and postulates. It was not until the end of the twentieth century that the profession faced the problems of defining the items in the financial statements. Measurement and valuation of these items became a problem during the 1960s and 1970s, when many economies experienced inflation, but despite much discussion and pressure from government enquiries, the profession never satisfactorily described a generally accepted method.

⁷ Gaffikin and Aitken (1982).

⁸ W.A. Paton and A.C. Littleton, *An Introduction to Corporate Accounting Standards*, (Michigan, 1940), p.ix.

⁹ Committee to Prepare a Statement of Basic Accounting Theory, *A Statement of Basic Accounting Theory*, (Evanston, Illinois, 1966), pp.1 and 2.

Defining the term ‘financial accounting theory’ was almost the only point on which professional accountants agreed. Several areas in the theory, such as measurement, remained unresolved. As a result, the development of financial accounting theory during the twentieth century may be seen as a series of ‘debates’, sometimes running concurrently and sometimes occurring more than once, on issues including measurement and valuation. The participants in the debates also varied. Sometimes they were individuals and sometimes they were accounting organisations. Whoever was involved, the debates were often conducted strongly.

The Beginning of Financial Accounting Theory: To 1950

From its beginnings in the nineteenth century until the middle of the twentieth century the accounting profession focused on practical accounting matters and issuing guidelines for good accounting practice. Even so, during this time some professional accountants, with much discussion and argument, were considering a theoretical base for these practices. The first attempts by these members of the accounting profession to outline a theory of financial accounting came towards the end of the nineteenth century. These accountants, working mostly in an individual capacity, were interested in seeing if it was possible for the profession to improve the quality of financial reporting through better guidance from the profession.¹⁰ Users of external financial reports needed assurance that the financial information released by entities was reliable and disclosed the basis on which the information was prepared. Only then could the reports allow useful assessment of management and comparison of performance between entities. For some members of the profession, improving the quality of external financial reporting was possible through identifying the general concepts underlying such reporting, not simply relying on revising current practices.

Not everyone in the profession agreed. Some accountants argued that accounting was a practical profession and accounting methods should be deduced from what actually happened or needed to happen.¹¹ Quality reporting arose from common sense and experience. Such methods were not sufficient for those members of the profession who saw the necessity for a theoretical basis to external financial reporting, such as Dicksee (1890s) in the United Kingdom and Sprague and Hatfield

¹⁰ See Lee (2009), p.142.

¹¹ F.R.M. de Paula, ‘The Future of the Accountancy Profession,’ *The Accountants’ Journal*, 23:8 (1945), pp.186-188.

(1900s) in the United States. These men were interested in the elements underlying financial reporting and in generalising from those elements. They did not ignore the reality of accounting practice for they emphasised practical accounting and had a pragmatic attitude towards improving the quality of accounting practice.

In effect, their theorising was inductive. Accounting practitioners like Dicksee and Sprague and Hatfield were not looking to propose a theory of financial accounting as such. Rather they were interested in trying to identify the characteristics of good external financial reports. Given the nature of accounting practice, it was logical that they were interested in looking at accounting practice and trying to generalise from what accountants were doing. External financial reporting was a response to a need for information on entities. Inductive reasoning implied theorising directly from actual accounting practice. Even so, the work of these early accounting theorists was transformative as they attempted to describe the rationale behind external financial reporting and in effect provide a 'big picture' response to demands for improved external financial reporting. In their writings, they began identifying what they saw as characteristics present in external financial reporting such as clarity and consistency, urging the profession to adopt these elements more broadly.¹²

One issue for accounting theorists was the changing purpose of external financial reporting. In the late nineteenth and early twentieth centuries, financial reporting was a method whereby management accounted to owners. The main use of external financial reporting was to fulfil that stewardship function.¹³ The financial activities and position of the entity were summarised in the financial statements and for the owners of the entity with the balance sheet as the main statement. There was, therefore, an ownership or proprietary focus in financial reporting giving owners the opportunity to assess changes in the level of their investment in an entity. The first theorists assumed this focus in their deliberations.¹⁴ As businesses became more capital intensive and those who were not directly involved in a business invested in entities, the focus of external financial reporting shifted from a stewardship function to becoming decision useful. Investors were not owners of the entity and they were interested in returns on their capital investments rather than maintenance of assets. Consequently, when the income statement became more important in external

¹² Sprague (1907) and Hatfield (1909).

¹³ British Company Law, for example, emphasised this aspect of financial reporting.

¹⁴ Lee (2009), p.142.

financial reporting the early theorists debated the nature of income and capital maintenance. Paton was one of the first theorists to consider an entity approach to external financial reporting, providing a view of an entity divorced from the interests of owner, investors, creditors or other groups.¹⁵

From the 1930s, in the United States, two major American accounting organisations became involved in the debate on the bases of external financial reporting. These organisations were interested in defining the basic elements of quality external financial reporting, which those involved in the debate on the basic elements referred to as accounting principles.¹⁶ The two organisations, the American Institute of Accountants and the American Accounting Association, took different paths in their development of a set of accounting principles. The American Institute began with current practice and generalised accounting methodology to produce guides for best practice, while the Association began with theory and worked towards application in practice. For the American Institute, the starting point was pressure from government and businesses following the 1929 Stock Market Crash and the Great Depression of the early 1930s. The American Institute and the New York Stock Exchange met to discuss how to improve external financial reporting and in 1933, the American Institute recommended six principles of accounting practice to the Stock Exchange that entities listed on the stock exchange should follow when preparing external reports. The principles were not a theoretical framework as such but they outlined a number of measures that entities should follow, including disclosing accounting methods used in preparing external financial reports.¹⁷

Although many entities used some of the principles in their external financial reports, the Stock Exchange did not promulgate the principles.¹⁸ In 1934, the Securities Exchange Commission gave authority to the American Institute to issue guidelines of best practice to entities. The Institute did not attempt to develop a theory of financial accounting, concentrating instead on providing guidelines of best practice that often allowed for a variety of accounting methods. In 1938, the Institute released an inductive study by Sanders *et al.* that first introduced the concept of GAAP.¹⁹

¹⁵ W.A. Paton (1922) in Lee (2009), p.144.

¹⁶ See Storey and Storey (1998), pp.16 and 17, for an excellent summary.

¹⁷ R.M. Skinner, *Accounting Standards in Evolution*, (Toronto, 1987), p.27.

¹⁸ Storey and Storey (1998), p.13.

¹⁹ Skinner (1987), p.28.

The American Accounting Association's more theoretical and deductive approach led to the release, in 1936, of twenty basic accounting propositions on the elements of the financial statements.²⁰ In 1940, Paton and Littleton expanded these propositions into the first comprehensive theory of financial accounting, that gave a more consistent and logical basis to accounting statements but were limited by their reliance on the general propositions becoming widely accepted by the profession.²¹ The 1936 and 1940 releases of the Association and the 1938 study of the American Institute agreed on most of what they identified as principles of accounting practice, such as the concept of the entity and the entity as a going concern, along with the importance of valuing items in the financial statements by historic cost. The American Institute's cautious response in 1938 to the American Association's propositions indicated that the accounting profession in the United States had not accepted the idea of accounting practice following theory, preferring theory developed from practice.

Both organisations' use of terms such as 'principle' raised further debate. Those interested in defining and describing accounting practice could not agree on terminology. As Byrne noted, terms such as 'principle' and 'rule' were used, for example in the American Institute's bulletins, as if they meant the same.²² Individuals had different ideas on the meanings of several terms, such as 'doctrine', 'convention', 'concept', 'postulate' and 'principles'. Kester saw principles as rules while G.O. May equated principles with conventions.²³ Dictionary definitions did not help because they gave several meanings for these terms and committees and individuals chose particular meanings to explain particular uses of the terms. 'Principle' for example could be a rule (the Institute's preferred definition) or a fundamental base (the Association's preferred definition). This disagreement proved significant for the American development of financial accounting theory. The American Institute, whose studies have helped provide a base for American accounting theory, considered principles to be rules that were prescriptive but which at the same time allowed alternative accounting methods.

²⁰ Ibid, p.29.

²¹ Paton and Littleton (1940).

²² G.R. Byrne, 'To What Extent Can the Practice of Accounting Be Reduced to Rules and Standards?' *The Journal of Accountancy*, November 1937, pp.364-379.

²³ R.B. Kester, 'Sources of Accounting Principles,' *The Journal of Accountancy*, December 1942, pp.531-535; G.O. May, 'Accounting Principles and Postulates,' (1943), reprinted in *Significant Accounting Essays*, M. Moonitz and A.C. Littleton (eds), (New Jersey, 1965).

New Zealand Institute members followed the American debates on the inductive and deductive approaches to financial accounting theory and the varying uses of terms such as 'principle' through *The Accountants' Journal* but the debates and American statements made little impact on New Zealand accounting practice.²⁴ The New Zealand profession continued to follow the lead of the British accounting organisations rather than American practice and became interested in the Institute of Chartered Accountants of England and Wales (ICAEW) Recommendations on Accounting Principles.²⁵ These recommendations, which the ICAEW began issuing in 1942, were guidelines for accounting practice and in some respects similar to American developments. Johnston at the University of Auckland likened ICAEW's accounting principles to the American Institute's accounting research bulletins.²⁶

In 1946, New Zealand adopted some of these guidelines for best practice when the Council of the New Zealand Society released seven of the ICAEW recommendations for use by the New Zealand profession.²⁷ There was some adaptation for New Zealand conditions, but the recommendations were almost exactly as issued in Britain. In both countries, the principles were recommendations only although they did have the official backing of the organisations' Councils.²⁸ However, there was no financial accounting theory behind the recommendations. Rather, they were general guidelines based on generally agreed practice. The use of the term 'principle' was more to indicate consistent rules than a fundamental base to accounting practice.

Thus, British and New Zealand accounting organisations at this time differed to some degree from the Americans. Accounting organisations in the United States were the first to consider seriously the ideas of individual accountants and to continue debating and researching the feasibility of a theory of financial accounting for accounting practice. Although some New Zealand accountants carried out research on accounting practice, for example, Feil early in the 1920s studied production costing, New Zealand approaches to improving accounting practices were practical rather than

²⁴ See, for example, M.S. Spence, 'The Art of Presentation,' *The Accountants' Journal*, 8:9 (1930), pp.302-312. In this reprint of an address given by Spence, he refers to the promulgations of the American Institute.

²⁵ Between 1942 and 1969, the ICAEW issued 29 recommendations.

²⁶ T.R. Johnston, 'The Nature of Accounting "Principles",' in Rodger (1957), p.110.

²⁷ Editorial, 'For Urgent Attention,' *The Accountants' Journal*, 24:11 (1946), p.273.

²⁸ A.A. Fitzgerald, 'The Role of Professional Societies in the Development of Accounting Theory,' *The Accountants' Journal*, 35:7 (1957), p.242.

theoretical and influenced by British developments. These approaches changed in the second half of the twentieth century.

Developing New Theories: 1950 to 1970

There were significant developments in financial accounting theory during the 1950s and 1960s, especially in the debates on what approaches the profession should take. As noted earlier, one of the complications with the various approaches to financial accounting theory was that those postulating ideas considered the practice of accounting from different points-of-view. Some saw accounting as an art. To others, accounting was a science.

Paton argued that accounting belonged in the arts.²⁹ Gruneberg agreed with Paton on the grounds that accounting was not a science because accounting rules were based on practice not logic or scientific methods.³⁰ Those who favoured this approach to accounting used inductive approaches to financial accounting theory, adopting methodologies from the arts and, while stressing observation and analysis of accounting practice, did so as a starting point to generalise accounting practice.

On the other hand, deductive approaches to financial accounting theory assumed a more scientific basis to analysing accounting practice. In the United States, Sprague saw accounting as ‘a branch of mathematical and classificatory science...[the principles of which might] be determined by a priori reasoning.’³¹ In the United Kingdom, Stamp, who considered accounting more social inquiry than science, or even a language, conveying information through financial statements, noted that those who saw accounting as a natural science proposed hypotheses and carried out empirical experiments, while those who saw it as mathematics established axioms and developed theorems through logical analysis.³² Bauer stated that accounting was adaptable with no fixed rules or unbending principles and the standards depended on consensus. Accounting did not fit easily into either area of knowledge. Hatfield noted that accounting was rejected by both the science and arts disciplines, but that did not stop the debate on where accounting fitted in academia.

²⁹ J. Haisman, ‘A Scientific Approach to Accounting Theory,’ *The Accountants’ Journal*, 35:4 (1956), pp.119-123.

³⁰ C. Gruneberg, ‘Is Accountancy a Field of Science?’ *The Accounting Review*, 25:2 (1950), p.162.

³¹ Sprague (1907), reprinted in Moonitz and Littleton (1965), p.53.

³² E. Stamp, ‘Accounting Standard Setting: A New Beginning,’ *CA Magazine*, September (1980), p.39.

Within New Zealand some NZSA members contributed to this debate showing a similar diversity of views.³³ J. Haisman, a Public Fellow and Councillor from Gisborne, considered accounting to be a science and compared it to mathematics, especially statistics.³⁴ He observed that science subjects kept devising new systems and processes and this was what happens in accounting. On the other hand, Ross, the NZSA's 1959 Travelling Scholar and a Registered Accountant employed by Air New Zealand, considered that accounting was a creative subject with no new truths needing discovery, so was an art.³⁵ It appears that those who thought accounting was not a science emphasised the fluidity of financial information as values of items and the extent of disclosure could vary according to the accounting methods applied. Carrington at the University of Canterbury saw a disadvantage to the profession of accounting information liable to inaccuracies, noting that there was a danger of accountants being considered technicians and this, said Carrington, they certainly were not.³⁶ He favoured a coordinated and systematic approach to accounting problems and research into the basic postulates of the profession. Johnston at the University of Auckland agreed with Carrington that accounting practice was not fixed. For this reason he considered accounting to be an art, although he admitted it could have scientific aspects. Johnston distinguished between the artistic nature and purpose of accounting and the scientific methods used to study accounting methods, echoing the earlier comments of May in the United States who stated that just as clients relied on doctors and engineers for their expertise in identifying and solving problems so should clients rely on accountants.³⁷ Therefore, said May, company external financial reports should not be simple enough for ordinary members of the public to understand.³⁸ However, this was not a commonly held view in the profession.³⁹ Johnston preferred the inductive method of deriving general principles from practical studies.⁴⁰ That is, the profession approaching problems on a case-by-

³³ Editorial, 'Accounting: Art or Science?' *The Accountants' Journal*, 36:12 (1958), p.393.

³⁴ J. Haisman, 'Live Stock Accounting-1,' *The Accountants' Journal*, 34:2 (1955), p.43.

³⁵ E.B. Ross, 'Notes on Accounting Theory,' *The Accountants' Journal*, 38:11 (1960), p.385.

³⁶ A.S. Carrington, 'The Accountant's Function,' *The Accountants' Journal*, 36:12 (1958), pp.394-397.

³⁷ Johnston (1957), p.41.

³⁸ T.R. Johnston, 'Reviews,' *The Accountants' Journal*, 29:1 (1950), p.24. Johnston reviewed May's article, which had been printed in *The Journal of Accountancy* March (1950). May's article, 'Truth and Usefulness in Accounting' was reprinted in *The Accountants' Journal* 30:1 (1951), p.16.

³⁹ The comprehension of external financial reports is also linked with Hines (1989) observation about the accounting profession's problem of the accessibility of accounting knowledge.

⁴⁰ T.R. Johnston (1957), p.41.

case basis rather than, as in the deductive approach, from a more general, theoretical base.

In the United States, Salmonsens, while agreeing that induction was one way to develop financial accounting theory, outlined two further approaches to accounting theory: practical and ethical.⁴¹ The practical approach, which Cowan from the University of Otago favoured, represented another form of induction where theory explained what was happening in practice, providing useful information but not structure.⁴² Salmonsens's ethical approach placed accounting within a social context, stressing the need for external financial reports to convey the truth and fairness of an entity's financial activities.⁴³ Salmonsens acknowledged that ethical theories were relatively vague because it was difficult to define 'truth' in a way that was generally accepted by the profession and those interested in external financial reports.⁴⁴

The social responsibilities of the profession and entities became more important in this debate towards the end of the twentieth century at the same time as accounting theory became more empirical. Buckley saw the deductive approach to financial accounting theory as constitutional, citing the work of the American Accounting Association, because this organisation was attempting to produce accounting standards within a conceptual framework.⁴⁵ The American Association was ahead of its time, because although the Association attempted to use deductive reasoning from early in the 1930s it was not until later in the century that accounting organisations began using this methodology among others when developing conceptual frameworks. The New Zealand Institute, for example, did not release a framework until the early 1990s.

The variety of approaches to financial accounting theory reflected a revival, or more precisely, a continuation of the debate on defining essential concepts and terms, and, as with theoretical methods there were several variations on what were the underlying principles of accounting. In the United States, in 1950, May described three fundamental postulates of accounting: that income must be realised; that

⁴¹ R.F. Salmonsens, *Basic Financial Accounting Theory*, (Belmont, California, 1969), pp.12 and 13. Salmonsens listed axiomatic (R. Ma), communication (N. Bedford) and sociological and behavioural (D.R. Ladd and T.R. Prince) approaches to financial accounting theory.

⁴² T.K. Cowan, (1965), AG 884-015/023, Hocken Library, Dunedin. Salmonsens (1969), pp.2-4.

⁴³ Ibid, p.2 noted that D.R. Scott [*The Accounting Review* 16 (1941), p.342] was an early advocate for this approach.

⁴⁴ Ibid, pp.10 and 11.

⁴⁵ J. Buckley, 'Policy models in accounting: a critical commentary,' *Accounting, Organizations and Society*, 5:1 (1980), p.49-64.

fluctuations in the value of the monetary unit should be ignored; and that an entity was a going concern.⁴⁶ From the United Kingdom, Murphy considered that the ICAEW's recommendations were based on three fundamental points: accounts should be informative, clear and show the real trend of profits.⁴⁷ Bray, the first holder of the Stamp-Martin Chair of Accounting at Oxford, identified two sources and five principles of accounting in a series of four essays he wrote on accounting principles. Bray noted that all accounting principles should come from the concept of periodic income and wealth and that all transactions were real. His five principles were double entry (debits equal credits), entity, continuity, consistency and accounting design.⁴⁸

Three New Zealanders contributed to this debate within the NZSA. Haisman identified five fundamental principles of accounting: monetary units have the same value; double entry; results conform exactly to the nature of the subject matter; results conform to the fundamental legal principles relating to the subject matter; and historic cost (value of monetary unit in a transaction must be the value at the time of the transaction).⁴⁹ Mathews, a Public Accountant in Wellington, distinguished five conventions: accounting period, going concern, entity, historical cost and monetary plus three doctrines, conservatism, disclosure and consistency.⁵⁰ Rodger, also in Wellington but more active in teaching than Mathews, listed thirteen accounting principles, many of the principles being those included in the lists of other theorists.⁵¹

Taking just these few examples of the ideas postulated during the 1950s illustrates the variety of classifications of similar accounting terms. Even though most researchers agreed that some of these elements, such as accounting period, entity, going concern, consistency and conservatism, were part of financial accounting theory, they did not agree on what these elements were, calling them variously postulates, points, sources, principles, concepts, conventions and doctrines. The debate had now been going for thirty years, but the profession had yet to arrive at a definitive set of terms. Of Rodger's principles, for example, Johnston argued consistency was normative and accounting period a convention. That is, he considered

⁴⁶ See footnote 40.

⁴⁷ M.E. Murphy, 'The Last Decade of British Professional Accountancy,' *The Accountants' Journal*, 30:7 (1952), p.197.

⁴⁸ R.G. Mathews, 'The Scope of Accounting Theory,' *The Accountants' Journal*, 34:12 (1956), p.432.

⁴⁹ Haisman (1956), pp.119-123.

⁵⁰ Mathews (1956), p.427.

⁵¹ W.G. Rodger, 'A Matter of Principle,' in Rodger (1957), pp.1-11.

them rules rather than principles as fundamental truths. Johnston also felt that Bray's accounting principles were not fundamental truths, but more rules of practice.

Johnston's approach to financial accounting theory avoided consideration of one purpose of external financial reports. Johnston preferred to look at the actions of the accountant, rather than contemplating the objectives of accounting.⁵² He said there was no one list of accounting principles, because what were accepted as accounting principles varied, depending upon what financial information was required by the user of external financial reports. The principles depended upon the accounting methods and techniques used. Despite their varying approaches the New Zealand contributors to the 'principles' debate agreed that accounting principles should come from practice. Inductive rather than deductive theorising was preferred in New Zealand.

Before obtaining agreement on the underlying principles the profession had to decide whether the practice of accounting contained fundamental 'truths' or whether the basic assumptions of the profession's 'conventions' arose from established use. The profession was approaching financial accounting theory from accepted practice and thus accounting principles could vary and even conflict.⁵³ That is, they were conventions because many of the accepted principles were not, as per a dictionary definition of principle, 'universally applicable or fundamental truths.'⁵⁴ Fitzgerald, a leading Australian accountant, recognised this dilemma. He saw many American and British researchers using the term 'principle' for what were actually working rules of practice and he considered that because of the nature of accounting practice, the profession should be defining conventions or doctrines rather than principles.⁵⁵ Conventions acknowledged the practical nature of external financial reporting and doctrines would distinguish accounting principles from specific rules. The distinction between principle and convention did not appear to be critical at this stage in the development of financial accounting theory because the theorists were trying to define and describe general characteristics of quality external financial statements from which would emerge the rules used by preparers of the reports.

Having debated and agreed on many of the principles of financial accounting theory while continuing to differ as to whether they should be known as principles,

⁵² I.C. Stewart, 'T.R. Johnston: Responsibility and Authority in Company Accounting,' in *Essays in Honour of Trevor R Johnston*, D.M. Emanuel and I.C. Stewart (eds), (Auckland, 1980), p.19.

⁵³ Rodger (1957), pp.2 and 3.

⁵⁴ A.A. Fitzgerald, 'Are There Any Accounting Principles?' *The Accountants' Journal*, 35:6 (1957), p.198 and Mathews (1956), p.427.

⁵⁵ Fitzgerald (1957), pp.198-199.

conventions or doctrines, those attempting to define accounting theory turned to another issue arising from external financial reporting, that of measurement of the items in the statements. These items may be readily identifiable, such as inventories, goodwill or cash, but the problem was how to measure them and how they could be measured to ensure that the principle of conservatism was maintained. During periods of financial stability there was little problem with items being expressed using the conservative measure of historic cost. However, in times of price instability, especially inflation, there were significant problems in ensuring that the external financial reports reflected the financial position and activities of an entity. Storey attributed the problem in part to the public's inability to read and understand external financial reports.⁵⁶ To May, the accounting profession had a responsibility to be the interpreters of the reports, thus emphasising accounting as a profession.⁵⁷ In New Zealand, Johnston and Rodger stressed the need to determine the measurement base and find an acceptable method to decide how to compensate for price level changes.⁵⁸ During the 1950s and 1960s, several theories were advanced to measure items while trying to maintain the truth and fairness of external financial reports.⁵⁹ No one theory received general acceptance.

As shown in the period between World War II and the 1970s, the problem of measurement was difficult to solve. There was an inherent tension between the principle of conservatism and ensuring the quality and usefulness of the financial statements, exacerbated by the economies in English-speaking countries experiencing persistent inflation or stagflation during this time.⁶⁰ This problem made standard setting a challenging area of professional behaviour because accountants as auditors were subject to the conflicting demands of economic self interest, responsibility to their clients and obligations to the public.⁶¹ The profession's continuing search for an acceptable financial accounting theory suggests that despite the challenges and conflicting demands standard setting was a professional activity and hence the profession needed to act to maintain its role as standard setter.

⁵⁶ R.K. Storey, *The Search for Accounting Principles: today's problems in perspective*, (New York, 1964), pp.36 and 37.

⁵⁷ May (1965).

⁵⁸ Rodger (1957), p.11 and Johnston (1957), p.46.

⁵⁹ Lee (2009), p.148 called the period 1941 to 1970 the "classical or golden age of theorising".

⁶⁰ The principle of conservatism stressed valuing items in the financial statements at their purchase price, historic cost. During inflationary and staginflationary times, such valuations were less than realisable values, reducing entity profits and the attractiveness of an entity for investors.

⁶¹ Lee (2006), pp.419-455.

A number of accountants, mostly American, created a variety of financial accounting theories, partly to provide a comprehensive theory and partly to account for rising price levels. Among those who proposed theories were Edwards and Bell (1961), Sprouse and Moonitz (1962), Mattessich (1964) and Sterling (1970).⁶² These theories were the product of individual theorists, although one accounting organisation, the American Association, contributed to the debate when in 1966 it produced its own theory of financial accounting. One exception to the American dominance of financial accounting theory was Chambers (1955), an Australian accountant, who proposed a theory of continuously contemporary accounting. The theories had much in common, such as the emphasis on certain generally accepted principles of accounting, like accounting period and consistency, but they varied greatly in how to measure the items in the financial statements. Chambers, for example, advocated net realisable values; Edwards and Bell preferred multiple current values; while Mattessich advocated a variety of current values and Sterling favoured current market prices. This sudden multiplicity of theoretical thought was in part from pressure on the profession to provide valid and effective standards. Hendriksen suggested that the theories came from a corresponding increase in researchers 'qualified in statistical and other quantitative research techniques and the availability of the computer.'⁶³

These theories not only lacked agreement on measurement methods, but also highlighted differences in terminology.⁶⁴ For several decades, individuals had indicated that a necessary early step towards a theory of financial accounting was to develop generally accepted accounting terminology.⁶⁵ International cooperation in the development of accounting standards went some way towards helping achieve this. For example, ICAEW Recommendation XVII Events after Balance Date was based on a statement on the same topic issued by the American Institute of Accountants in 1954.⁶⁶ However, standardising accounting practice and carrying that further to defining one set of generally acceptable standards drafted according to one financial

⁶² Other contributors of financial accounting theory included P.Grady, *Inventory of generally accepted accounting principles for business enterprises, Accounting Research Study 7*, (New York, 1965) and Y. Ijiri (1967).

⁶³ Hendriksen (1982), p.52.

⁶⁴ M.E. Murphy, 'Accounting as a Social Force in the Economy,' *The Accountants' Journal*, 32:6 (1954), p.178.

⁶⁵ Rodger (1957), p.11.

⁶⁶ N.K. Easton, 'The Challenge to the Accountant in Industry,' *The Accountants' Journal*, 36:5 (1957), p.194. In 1957, the AIA became the American Institute of Certified Practising Accountants (AICPA).

accounting theory was some way off even though the profession was now discussing the idea. In 1951, the University of Berlin, for example, asked accounting organisations in a number of countries how they were approaching this issue.⁶⁷ Smythe in Canada saw the advantages for the profession's reputation of standards providing a common set of guidelines to accounting practice.⁶⁸

International cooperation in standard setting not only supported the profession's reputation, but also helped minimise financial costs for the profession as standard setter, enabling smaller countries like New Zealand to benefit from work being done elsewhere. As mentioned earlier, in the early days of standard setting the New Zealand Institute's first formal guidelines for preparing external financial reports were virtual copies of the ICAEW's Recommendations on Accounting Principles at the same time as Institute members like C.H. Perkins used the 'they are doing it overseas' argument when pressing for a national research committee. In subsequent years the New Zealand profession continued to rely on other countries for the development of accounting standards as well as accounting theory. Lack of time, money and expertise were responsible for the New Zealand Institute's standard setting committee, the Accounting Practice and Procedures Committee (APPC), not advocating a particular theoretical approach in its procedures because, although it intended to develop guidelines for accounting practice, the Committee spent much of its ten years reviewing the New Zealand Companies Act. If the APPC had managed to find the time to consider guidelines for accounting practice it would have been in a good position to use the results of the international debate on financial accounting theory. Some New Zealanders who had debated the beginnings of financial accounting theory were APPC members. Rodger, for example, was a member of the APPC throughout the 1950s. Haisman was on the committee for six years.⁶⁹

The Board of Research and Publications (BRAP), which replaced APPC in 1961, had the expertise and resources to produce the first accounting standards specific to New Zealand conditions, but these standards were adaptations of standards issued overseas. Rodger continued as a member for five years and he was joined on

⁶⁷ W.G. Rodger, 'Research into Standardised Accounting Systems,' *The Accountants' Journal*, 30:2 (1951), p.59.

⁶⁸ J.E. Smythe, 'The Development of Accounting Principles,' *The Accountants' Journal*, 32:11 (1954), p.379.

⁶⁹ Appendix F.

the Board by Johnston and other academics.⁷⁰ The NZSA therefore had on the Board a significant number of people who were familiar with the debate on financial accounting theory and who had published their observations on the topic. Within a few years, the Board had reviewed the ICAEW recommendations that the Institute had suggested to members as good practice and began releasing the first New Zealand accounting standards, titled Tentative Statements of Accounting Practice. These standards did not derive from a stated theory of financial accounting. Rather they were standards written by British accounting organisations and adapted by the Board for use in New Zealand, thus continuing the Institute's policy of following British practice. The Board was more interested in checking that the accounting standards complied with New Zealand legislation and accounting practice. Thus, although the Board had academic members who had previously shown a knowledge and interest in financial accounting theory, the Board did not appear to use a particular theory in its deliberations. Neither did many of the accounting organisations overseas. This was possibly because, as Lee observed, 'by the late 1960s, financial accounting theory had a chaotic flavour.'⁷¹

The valuation debate is a good example of the challenge the profession had in developing financial accounting theory and in showing the difficulty the profession had as standard setter in maintaining its professional reputation. The confusion in financial accounting theory, especially the debate on valuation methods, intensified as inflation became an issue in many countries during the 1970s, although that did not stop more theories being proposed.⁷² At this time, there were many criticisms of the theories within the profession on how accounting practice was not accommodating the effects of rising price levels. In the United Kingdom, for example, Lawson criticised the use of conventional accounting principles and the use of accrual accounting methods, which he described as 'a dubious basis for measuring current performance.'⁷³ In 1970, Stamp wrote *Accounting Principles and the City Code: the case for reform*, pressing the accounting profession to take the lead in developing financial accounting theory. In the United States, the American Association's review of some of the theories concluded that the theories differed because there was little agreement on measurement methods, it was difficult to relate the theories to practice

⁷⁰ Appendix G.

⁷¹ Lee (2009), p.152.

⁷² See Mattessich (1995) for a personal and comprehensive discussion of several theories.

⁷³ Quoted in 'The Profession Abroad,' *The Accountants' Journal*, 48:8 (1970), p.345.

and they were too subjective to apply generally.⁷⁴ Chambers saw the problem as a failure on the part of the profession to adhere to the 'common attribute' principle in valuation.⁷⁵

The debate on valuation methods used in external financial reporting increased as inflation grew and the principle of conservatism in accounting practice came under increasing pressure. Using the generally accepted historic cost (HC) method of valuation meant that the numbers reported in the financial statements no longer even approximated current values. As a result, the information in the financial statements was misleading and users ran the risk of making inefficient economic decisions. The profession came under pressure from entities wishing to maximise income in their external financial statements and governments initiating enquiries into external financial reporting.⁷⁶ The accounting profession responded by examining how to overcome the problem of what valuation method should replace historic cost, if any, looking in particular at two valuation methods, current purchasing power (CPP) and current cost accounting (CCA). The debate was especially strong with advocates for all three methods, as well as variations on the methods. The FASB's 1980s conceptual framework project on defining recognition and measurement in external financial reports, for example, was not able to reach a conclusion because of the impasse between members favouring historic cost and those preferring current cost.⁷⁷ To maintain consistency and conservatism, the profession preferred external financial reports using historic cost, but accepted that measurement methods needed to accommodate inflation. At first, the profession advocated current purchasing power but management and government reports favoured current cost accounting. Eventually, the accounting profession decided to allow the use of current cost accounting.⁷⁸ The debate on the most acceptable method of valuation was never resolved, but died down when inflation fell later in the 1980s. This debate on how best to account for inflationary economic conditions illustrated the many difficulties the accounting profession faced in producing effective and acceptable accounting standards, when even the profession could not agree on which financial accounting theory provided the best basis for standard setting. With entity and state questioning

⁷⁴ American Accounting Association, *Statement on Accounting Theory and Theory Acceptance*, (Evanston Illinois, 1977).

⁷⁵ R.J. Chambers, 'Ends, Ways, Means and Conceptual Frameworks,' *Abacus*, 32:2 (1996), p.127.

⁷⁶ Sandilands Committee in the United Kingdom and the Richardson Committee in New Zealand.

⁷⁷ Miller and Redding (1988), p.118.

⁷⁸ ED-14 Accounting in Terms of Current Costs and Values was released in 1974.

of the valuation methods it advocated, accounting's professional reputation suffered but the profession continued to act to remedy this problem, suggesting that standard setting remained a professional activity.

Conceptual Frameworks: 1970 to the Present Day

The pressure for valuation methods in financial accounting theory may have lessened but the accounting profession found that the public and governments continued to urge entities for more financial accountability. Hence the pressure remained on the accounting profession to provide improved accounting standards. In response, the profession searched for a theoretical base to accounting practice that led to the development of conceptual frameworks for accounting standards.

The pressure for financial accountability was especially strong during the share market boom and crash in the 1980s. There was also pressure from within the profession itself. Gaffikin, for example, was critical of accounting standards being created on a case-by-case basis. He called for methods that gave consistency.⁷⁹ The New Zealand Institute did not enter this debate. Its standard setting board, the Board of Research and Publications (BRAP) concentrated on producing Statements of Standard Accounting Practice, not using a specific theory of financial accounting directly (but doing so indirectly when it adapted standards produced elsewhere that had a basis in conceptual thinking). Even so, New Zealand Institute members were exposed to developments in financial accounting theory. *The Accountants' Journal* reprinted articles that critiqued theories proposed by the profession overseas. The *Journal*, for example, reproduced three articles from the British journal, *The Accountant*, in which Greener examined the consistency of use of accounting principles and methods to make external financial reporting useful for making economic decisions.⁸⁰ Thus, Institute members remained aware of the debate on external financial reporting.

From early in the 1970s, the accounting profession in the United States followed by the profession elsewhere, particularly Australia and international organisations such as the International Accounting Standards Committee (IASC),

⁷⁹ M.J.R. Gaffikin, 'New Thoughts on Accounting Standards,' *The Accountants' Journal*, 58:11 (1979), p.432-434.

⁸⁰ M. Greener, 'Accounting Standards: Inconsistencies in Accounting Principles,' *The Accountants' Journal*, 48:7 (1970), pp.288-289, 'Accounting Standards: Consistency in Application,' 48:8, pp.325-326 and 'Accounting Standards: Inconsistencies in Auditing and Accounting Methods,' 48:9, pp.368-372.

began developing conceptual frameworks from which to draft accounting standards. Rather than considering problems in external financial reporting on a case-by-case basis, conceptual frameworks provided a structure within which the accounting profession could develop accounting standards, with the aim of ensuring that external financial reports met the needs of users. Conceptual frameworks were broader than a theory, in effect incorporating theory within them. Theory provided the underlying rationale for conceptual frameworks and contained the system of abstract principles. Conceptual frameworks included the system of abstract principles and established conventions. Storey observed that a conceptual framework gave meaning to accounting practice.⁸¹

To become generally accepted within the profession, the frameworks were necessarily the creation of accounting organisations. The accounting profession benefited, because the public and interested groups could see that the profession was doing something about the concerns raised about the quality of external financial reporting. Creating conceptual frameworks required a level of resource use for which accounting organisations were better placed than individual accountants. Developing the frameworks was easier now than earlier in the century. The accounting organisations were helped by an increasing use of empirical methods during the 1980s. As a result, conceptual frameworks came from a mix of ‘propositions and observations.’⁸² Even so, the path to an acceptable conceptual framework was not easy for the profession. Accounting organisations in general agreed with the definition of a conceptual framework. A framework was a ‘structure for organising and supporting ideas...a mechanism for systematically arranging abstractions’ having objectives and qualitative characteristics, providing an authoritative structure within which objectives, concepts, principles and practices were linked and evaluated.⁸³ The idea of a conceptual framework was not new, even if the term was.⁸⁴ In 1957, Johnston likened theory in accounting to jurisprudence in law.⁸⁵ Stamp agreed, noting

⁸¹ Storey (1964).

⁸² Skinner (1987), p.628.

⁸³ Weaver-Hart (1988), quoted in S. Lesham and V. Trafford, ‘Overlooking the conceptual framework,’ *Innovations in Education and Teaching International*, 44:1 (2007), p.94. N.Z. Miah, ‘Attempts at developing a conceptual framework for public sector accounting in New Zealand,’ *Finance, Accountability and Management*, 7:2 (1991), pp.83-97.

⁸⁴ See footnote 93.

⁸⁵ Johnston (1957), pp.115 to 118.

some years later, that this was how a conceptual framework should work in accounting.⁸⁶

Accounting organisations could agree on the idea of a conceptual framework but there was still debate centred on what were the basic concepts, characteristics and principles in a framework. Generally, the profession agreed that the financial information in external financial reports needed to be relevant, reliable, clear and comparable, but they disagreed on which information was basic and essential. The differences between the International Accounting Standards Board's (IASB) and Financial Accounting Standards Board's (FASB) conceptual frameworks, for example, included describing reporting risk and the level of transparency required in the external financial reports.⁸⁷ The debate, therefore, was not so much on what a conceptual framework was to be, but on the details within the framework.

Miller and Redding provided a useful discussion, identifying three functions of a conceptual framework: descriptive, prescriptive and defining terminology.⁸⁸ A conceptual framework that described existing practice, which was an inductive process, took accounting practice into consideration. Many practitioners favoured this approach, but its disadvantage was that it assumed that existing practice used the best methods when in practice there were often alternative accounting methods.⁸⁹ A descriptive conceptual framework required accountants agreeing on what accounting methods were used and why they were used, which was not always possible.⁹⁰ Miller and Redding noted that Paton and Littleton, Grady and the American Institute's Accounting Principles Board's conceptual statements were examples of descriptive conceptual frameworks.⁹¹

The prescriptive approach to developing a conceptual framework was deductive and normative, providing guidance for what ought to be done in external financial reporting. A conceptual framework functioning in this way was more objective and rigorous but dependent on accountants agreeing on the basic concepts

⁸⁶ E. Stamp quoted in K.V. Peasnell, 'Introduction,' in *Philosophical Perspectives on accounting. Essays in honour of Edward Stamp*, M.J. Mumford and K.V. Peasnell (eds), (London and New York, 1993), p.1.

⁸⁷ M E. Bradbury interview 4 June 2009.

⁸⁸ Miller and Redding (1988), p.109.

⁸⁹ Chambers (1996), p.126

⁹⁰ Miller and Redding (1988), p.110.

⁹¹ Paton and Littleton (1940); Grady (1965); Accounting Principles Board *Accounting Principles Board Statement No. 4: Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises*, (AICPA 1970).

and principles outlined in the framework. For many practitioners, a prescriptive conceptual framework was too abstract and divorced from reality.⁹² Early examples of prescriptive conceptual frameworks were released by Sprouse, Moonitz, the Accounting Association and the American Institute's Trueblood Study Group.⁹³

The third function of a conceptual framework, according to Miller and Redding, was to encourage the definition of commonly used terms in external financial statements, which would make it easier to produce consistent accounting standards, but, to be generally accepted, also required consensus from accountants.⁹⁴ This was the approach taken by the profession in most countries.

Conceptual frameworks provided several advantages in preparing external financial reports. The frameworks were a source of reference for those preparing external financial reports and the users of the reports. They were comprehensive, so fewer accounting standards were needed and they helped reduce the number of alternative accounting methods. At the same time, the frameworks reduced the costs of preparing the external reports and ensured more efficient use of entity resources. The disadvantage of conceptual frameworks was that they could become too set and rigid, an accusation made of American standard setting.

Americans were the first to use the term 'conceptual framework.'⁹⁵ In 1973, the FASB when outlining some of its first projects announced that one project was to develop a set of definitions of the elements in the external financial statements, in effect the third of Miller and Redding's three functions of conceptual frameworks. This project followed the release of the American Institute's Trueblood Committee Report, which considered the objectives of external financial reporting. The Trueblood Report is considered a watershed in the profession's path to a conceptual framework.⁹⁶ Trueblood was a keynote speaker at an international congress of accountants in Sydney in 1972 and his paper evoked lively discussion on the conceptual basis for accounting standards. A member of the New Zealand Institute

⁹² Miller and Redding (1988), p.113.

⁹³ M. Moonitz, *Accounting Research Study No.1: The Basic Postulates of Accounting*, (New York, AICPA, 1961); Sprouse and Moonitz (1962); American Accounting Association, *A Statement of Basic Accounting Theory*, (Evanston, Illinois, 1966); Trueblood Study Group, *Objectives of Financial Statements*, (New York, 1973). Quoted in Miller and Redding (1988), p.113.

⁹⁴ Miller and Redding (1988), p.114.

⁹⁵ Although as early as 1959, when the AICPA created the Accounting Principles Board (APB), the predecessor of the FASB, the APB was charged with defining a statement of accounting principles. Chambers (1996) noted that Storey first introduced the term 'conceptual framework' to accounting in 1964.

⁹⁶ F. Devonport interview 19 May 2007.

and former President, J.A. Valentine, at the congress stressed the importance of the profession ‘...tak[ing] upon itself the task of harmonizing the principles and bases so as to obviate bodies outside our profession doing so.’⁹⁷ The Trueblood Report made an impact on standard setting because it was issued at a time when the profession was broadening its outlook in standard setting and becoming open to new ways of considering standard setting. The Report thus both reflected and affected the profession’s future as standard setter. The IASC, for example, which began issuing international standards shortly after the Sydney Congress was influenced by the contents of the Report, as was the FASB in the United States.

The FASB’s project expanded its terms of reference and began developing a conceptual framework for American external financial reporting. In 1976, the FASB released *Tentative Conclusions on Objectives of Financial Statements of Business Enterprises*, which became the first of the FASB’s conceptual framework statements. Between 1978 and 1985, the FASB issued six Statements of Financial Accounting Concepts. However, the conservative element in the American accounting profession continued to dominate standard setting for the framework statements showed a shift in the FASB’s approach from the prescriptive to descriptive function of conceptual frameworks. The shift reflected the persistent opposition by American accountants to what they perceived as fundamental changes to accounting practice.⁹⁸ The American conceptual framework for external financial reporting was not a total failure. The framework is in use to this day. It has produced generally agreed terminology and emphasised the importance of financial statements being user friendly, rather than illustrating management accountability, as earlier last century.

Many researchers have criticised the FASB project. Chambers, for example, considered that a conceptual framework should describe, not prescribe, and Hines, among others, was critical of the incompleteness and inconsistency of the American framework.⁹⁹ Hines’ criticism focused on later events in accounting theory that involved the wider profession and professional accounting organisations. By placing the evolution of conceptual frameworks in a social context of professionalisation Hines illustrated that the link between accounting theory and the frameworks for

⁹⁷ *Book of Proceedings*, 10th International Congress of Accountants, Sydney, 1972, p.247-265.

⁹⁸ Miller and Redding (1988), p.116.

⁹⁹ Chambers (1996), p.126 and Hines (1989), p.81.

external financial reporting did not have to be rigorous but simply based on the profession persuading others that it had the necessary body of knowledge.¹⁰⁰

Although the United Kingdom was not as focused on financial accounting theory as the United States, there were a number of British accountants who argued for a theoretical base to developing accounting standards. Following pressure from these individuals and aware of developments in the United States, the ICAEW agreed to an investigation on a theory of external financial reporting and in 1975, released *The Corporate Report*. The report outlined for the first time a proposed conceptual framework for British accounting standards, although it was not until 1999 that the British accounting profession released its *Statement of Principles for Financial Reporting*. In the meantime, the New Zealand profession was moving towards creating its own framework for financial reporting, albeit one that was heavily influenced by developments overseas.

The long debate on financial accounting theory was closely followed by the profession here and had a significant effect on New Zealand standards from the 1980s. The Institute's standard setting board continued to adapt standards from overseas, especially the United Kingdom but also the United States, Australia, Canada and the International Accounting Standards Committee. SSAP-4 Valuation and Presentation of Inventories in the context of the Historical Cost System issued in 1975 incorporated IAS 2, SSAP-7 Extraordinary Items and Prior Period Adjustments, issued in 1977 was based on the ICAEW SSAP M-6 and SSAP-9 Information to be Disclosed in Company Balance Sheets and Profit and Loss Accounts, issued in 1978 was based on IAS 5. Local factors ultimately decided what New Zealand standards would be issued but standards issued by the IASC were always on the agenda of the Institute's standard setting board as were any emerging international issues, such as the debate on inflation in the 1970s.

Just as with overseas standards, so too the debate on financial accounting theory affected the standard setting process in New Zealand. Despite the problems associated with defining such concepts as valuation methods, from later in the 1970s the New Zealand Institute followed the United States and United Kingdom in using a more theoretical approach to developing New Zealand accounting standards. The

¹⁰⁰ R.D. Hines, 'Financial Accounting Knowledge, conceptual framework projects, and the social construction of the accounting profession,' *Accounting, Auditing and Accountability Journal*, 2:2 (1989), pp.72-92.

Institute's revision in 1984 of SSAP-8 Accounting for Business Combinations and the issue in 1985 of SSAP-17 Accounting for Investment Properties by Property Investment Companies in 1985 came as Institute responses to creative accounting practices of some New Zealand entities but the Board's method was to consciously develop them from first principles.¹⁰¹ There was no particular theory adopted by the Board. It simply started from defining the elements in the external financial reports, although it did not do so in isolation from overseas standards.¹⁰² SSAP-8, for example, was revised after consultations with the FASB in the United States, which was in the process of developing a similar standard. Even so, the Board was 'starting to think about the standards as New Zealand standards rather than as copies of what somebody else was doing.'¹⁰³ SSAP-8 brought the profession into conflict with the legal profession as the accounting profession argued, eventually successfully, for economic form over legal form to counter entity structures that were being created to avoid consolidation of entities that in substance were subsidiaries. SSAP-17, discussed in detail in chapter nine, proved too innovative. Non-compliance by entities and internal divisions between the standard setting members and auditors in the Institute led to a swift revision. The standard's emphasis on relevance over reliability and its comprehensive view of income was too different from accounting practice in New Zealand and overseas. The economic environment changed and it could be argued that entities were reluctant to include revaluation losses in their profits. Within three years of its release the Board modified the standard to allow traditional practice.

The New Zealand Institute's standard setting board was up-to-date on what was happening in standard setting overseas and the New Zealand standard setting process was similar to that followed overseas. New Zealand in general copied rather than led international standard setting, doing what others were doing and that included applying financial accounting theory. The exception was SSAP-17. Why did the Board develop SSAP-17 and why did the Council approve its issue? The quick and negative response of auditors within the Institute showed that the New Zealand profession was divided on how to deal with accounting for investment properties. The Board would have been aware of auditor disagreement from responses to ED-29 in 1983 yet it went ahead with SSAP-17. Perhaps the idea of developing a standard that

¹⁰¹ D. Macdonald interview 14 July 2009.

¹⁰² F. Devonport interview 18 May 2009.

¹⁰³ E.M. Hickey interview 9 June 2009.

followed a consistent theory from first principles outweighed practicalities. Equally the Board may have had practical matters in mind because some entities were already including revaluations in profit and SSAP-17 would eliminate diversity of practice.¹⁰⁴ SSAP-17 brought the New Zealand profession to the attention of the international accounting community, the only time before sector neutral standards in the 1990s.¹⁰⁵ The consequences of SSAP-17 showed that the profession needed to consider the implications of internal divisions as well as the question of entity compliance when developing standards.

While New Zealand was venturing into new accounting territory in SSAP-17, but not actually developing a full conceptual framework, other countries were developing their own frameworks. The New Zealand Institute did not consider it needed to create its own framework for it was adopting and adapting overseas standards that were based on the conceptual frameworks being developed in the United Kingdom, United States and Australia. Other groups in the New Zealand economy thought otherwise and the New Zealand Institute experienced increased pressure to develop a framework. Events such as the 1987 stock market crash galvanised the New Zealand Securities Commission to urge the Institute to develop a conceptual framework for accounting standards. The Commission's pressure, when added to other events, caused a change in the Board's thinking. There was the problem of defining revenue, which was raised when the Board was considering extending the principles of SSAP-17 to investments. To overcome this problem, the Board established a committee to define the elements in external financial statements. The committee did not set out to develop a conceptual framework but soon realised that it was a small step to write a conceptual framework given that it had developed a comprehensive set of definitions.¹⁰⁶ Between 1992 and 1997, the Board released a series of exposure drafts and statements adapted from the frameworks already developed by the British, Americans and Australians.¹⁰⁷

Internationally, the profession continued to debate the usefulness and acceptability of conceptual frameworks. Archer's and Sterling's 1993 misgivings about the search for a conceptual framework, for example, incorporated many of the

¹⁰⁴ T. van Zijl (2009).

¹⁰⁵ Tweedie (1985).

¹⁰⁶ T. van Zijl interview 16 July 2009.

¹⁰⁷ See S. Johns, 'Conceptual Framework and Accounting Standards,' in *Accounting Theory: Issues for New Zealand Accountants*, K. Hooper, H. Davey, D. Hay and S. Johns (eds), (Palmerston North, 1999).

arguments surrounding financial accounting theory. The two researchers argued that developing a conceptual framework misled the accounting profession because accounting was not a science and financial accounting theory should focus on the behavioural aspects of accounting practice.¹⁰⁸ It is probable that the difficulty the accounting profession has had in developing a generally accepted conceptual framework was aligned to the debate on whether accounting is an art or a science. Science favours explicit and precise conclusions to research. The arts are more flexible and these differences may explain the profession's difficulties. Financial accounting may be an art to which the profession is trying to apply scientific methods.

In addition, creating a conceptual framework that received general acceptance was problematic, partly because the standard setting environment continued to change and partly because standard setting varied between countries.¹⁰⁹ Accounting standards drafted in one country were adapted for use in another country, but the frameworks within which they were created, and operated, differed between countries although these differences were in emphases rather than disagreement on general concepts. To this extent, the problem has possibly made it easier for the accounting profession to move towards acceptance of the IASB's conceptual framework and hence the current movement toward the harmonisation of accounting standards and the world wide adoption of international standards. A notable exception at present is the United States but in 2010, the two main accounting organisations, the IASB and the FASB continued to negotiate on one conceptual framework, aiming for complete convergence of international and American frameworks by July 2011.¹¹⁰

As the literature shows, thinking about principles and other concepts was not confined to the notion of a framework. Thinking conceptually was important for accounting practice and accountants applied this in their everyday work.¹¹¹ But a

¹⁰⁸ S. Archer, 'On the methodology of constructing a conceptual framework for financial accounting,' p.118 and R. Sterling, 'The subject matters of Accounting,' p.133, both in Mumford and Peasnell (1993).

¹⁰⁹ Chambers (1996), p.130 considered that a conceptual framework was possible only from "genuine understanding of 'how the world works.'" Hines (1989), p.85, noted that conceptual frameworks were first developed in countries such as the United States and United Kingdom when the profession responded to competition and the threat of government intervention. F. Clarke and G. Dean, *Indecent Exposure: gilding the corporate lily*, (New York, 2007), p.70, agree, especially during the 1930s and 1970s.

¹¹⁰ K. Crook, 'New common framework aims to lay sound foundation for new standards,' *The Chartered Accountant*, 85:6 (2006), pp.18 and 19; K. Simpkins, 'A PBE eye on revised framework,' *The Chartered Accountant*, 85:6 (2006), pp.20-22 and 'Global Perspective: interview with Sir David Tweedie,' *The Chartered Accountant* 89:3 (2010), p.54.

¹¹¹ Fitzgerald (1957).

conceptual framework went further. Having a conceptual framework would enable the profession to justify the standards it was drafting and show that these were consistent and logical. Conceptual frameworks were a normative and deductive response of accounting organisations to ongoing demands for clarity and consistency in external financial statements.¹¹² They formed the latest phase in the development of financial accounting theory even though, as with other issues in financial accounting theory, they have been the subject of much debate.

Although academic accountants spent several decades attempting to describe and adopt financial accounting theory the success of such theory is arguable. As Lee noted:

after one hundred years of discussion, ideas, theories and the discipline of developing conceptual frameworks, there is no one generally accepted theory of financial accounting, no general laws of accounting practice and no generally accepted theory that can predict and explain accounting practice.¹¹³

The significant words in Lee's conclusion are 'generally accepted'. The accounting profession spent the twentieth century searching for a theory of financial accounting that was acceptable to members in many countries and, more particularly, capable of disclosing pertinent financial activities in different entities to differing interest groups. Several times during the century a number of practising and academic accountants, particularly in the United States, proposed theories.¹¹⁴ However, their efforts were not generally accepted because the profession was constrained by the varying demands for financial accounting theory and the need to begin from first principles.

There was little dispute over what financial accounting theory was for, namely to improve the quality of external financial reporting by entities. The problem was that in developing financial accounting theory the accounting profession was responding to pressure from interested parties who had different ideas about what constituted quality external financial reporting. These parties included those closely involved with the entity, such as creditors, investors who had little knowledge of the state of the entity, the wider public, who were adversely affected by entity failure and governments anxious to maintain stable economic environments. Differing user

¹¹² Lee (2009), p.154.

¹¹³ Lee (2009), p.414.

¹¹⁴ Paton and Littleton (1940); Sprouse and Moonitz (1962); American Accounting Association (1966); Sterling (1970).

demands on external financial reports made it difficult for the accounting profession to define a theory that allowed the reports to be comprehensive and yet understandable and cost efficient.

In its efforts to determine financial accounting theory the accounting profession was also responding to its own need for continuing recognition as a profession. Developing financial accounting theory was but one step in maintaining professional status, as the profession moved to consolidate its position as the accepted provider of regulations for external financial reporting. The accounting profession was young relative to the professions it was most closely associated with, such as the legal profession, and it therefore needed to assert its authority where it could. Developing financial accounting theory was one way to achieve this for there was no history of theoretical reasoning before the end of the nineteenth century, some decades after the accounting profession was established. Creating financial accounting theory added depth and legitimacy to the profession's work. However, the newness of the profession did not help its efforts to reinforce its social acceptance as a profession in that accounting had not completed the process of defining accounting practice before embarking on the search for financial accounting theory and there was therefore some uncertainty about what constituted accounting practice. Davis *et al.*, for example, saw competing financial accounting theories coming from the varying images of accounting.¹¹⁵

This difficulty did not deter the accounting profession as it continued to emphasise its responsibility to society and duty to investors. The profession's commitment to its responsibilities was apparent in the shift in emphasis from external financial reporting being management's accountability to owners to the financial statements being useful for good economic decision-making, although this shift did not eliminate all problems. Montagna concluded that

[i]deological disputation about accounting theory...is the surface manifestation of an underlying struggle between members of the profession and between the profession and the federal government on the responsibilities of accountants to the public as opposed to those to the client.¹¹⁶

¹¹⁵ J.W. Davis, K. Menon and G. Morgan, 'The Images that have shaped accounting theory,' *Accounting, Organizations and Society*, 27:4 (1982), pp.307-318.

¹¹⁶ P. Montagna, 'Accounting, Rationality and Financial Legitimation,' *Theory and Society*, 15:1/2 (1986), p.104.

Accountants as auditors had a duty to clients that could put them at variance with their broader obligation as professionals to act in the public interest and this conflict caused the profession to mute its support for the public interest, as noted by Fogarty *et al.* in their study of the American profession's responses to public calls to improve external financial reports.¹¹⁷ This conflict could also produce tension with state threats of direct intervention reducing the profession's independence, to ensure standards that fulfilled user needs.¹¹⁸

With these debates and pressures, was it ever going to be possible for the accounting profession to develop a universally accepted accounting theory? The answer is perhaps, but possibly not. The problem was that the objectives of accounting reports varied according to circumstances, such as who were the users of external financial reports and what were the political and economic circumstances. An acceptable theory, even in the form of a conceptual framework, needed to be able to adapt to changing environments and problems, and that produced tension within the profession.¹¹⁹ Accountants needed to be open minded and accounting practice flexible and adaptable to cope with changing circumstances. The profession had to be 'ready to] depart from established practice where the facts and nature of things demand them'.¹²⁰ But too flexible a theory could work against standardisation and leave the profession liable to being perceived as incapable of being a standard setter.

The profession was aware of this difficulty. The American Accounting Association's 1966, *A Statement of Basic Accounting Theory* commented that it was impossible to define objectives of accounting because there were a wide range of users of external financial reports who had differing needs for financial information.¹²¹ Consequently, it was not possible to build a systematic theory of accounting based on all objectives of all users. Accounting theorists must choose. Edwards and Bell, in their 1964 book, *The Theory and Measurement of Business Income*, argued that a theory of financial accounting could be based on a selected group of users of external financial reports who represented the principal users of accounting information. Staubus recognised this. When outlining his ideas on

¹¹⁷ Fogarty *et al.* (1997).

¹¹⁸ Byington and Sutton (1991).

¹¹⁹ K.V. Peasnell commenting on Stamp's contribution to accounting theory in Mumford and Peasnell (1993), p.1.

¹²⁰ Haisman (1955), p.43.

¹²¹ F.K. Wright, 'Valuation for Income Measurement,' paper presented at AAUTA Convention 1970, pp.E1-E24, quoting from p.4 of the American Accounting Association's statement.

financial accounting theory, he first identified what he considered the main objective in financial accounting.¹²² Despite these challenges, the accounting profession has developed conceptual frameworks.¹²³

The profession's efforts in developing financial accounting theory improved accounting knowledge to a degree that not only produced conceptual frameworks but also increased the level of technical accounting knowledge. Better technical accounting knowledge helped improve the quality of accounting qualifications, thus reinforcing another aspect of the professionalisation process, acquisition of power from knowledge. These advantages help explain why the accounting profession developed conceptual frameworks, in spite of this being a difficult and arguably futile effort, or at least, claimed it had done so.¹²⁴

The profession's struggle to produce financial accounting theory highlights the importance of international cooperation and sharing in the history of standard setting. From as early as the end of the nineteenth century the profession's efforts to define and improve accounting knowledge have had a strong international element. The writings of theorists were widely disseminated through the accounting world, as evidenced in references to them in articles in the New Zealand Institute's journal and, as discussed earlier in this chapter, the nature of financial accounting theory evolved as proposals and critiques came from accounting academics in several countries.

The structure and history of financial accounting theory in New Zealand 'reflected what existed elsewhere.'¹²⁵ Until the 1960s, financial accounting theory in New Zealand came from individuals, rather than a deliberate, collective effort by the New Zealand Institute, just as in many other countries. These New Zealanders, practitioners like Perkins and academics like Carrington and Johnston, studied, researched and debated the elements of financial accounting theory as they were defined by others in the United States, United Kingdom and elsewhere. However, the findings of these New Zealanders were neither original nor internationally important. Any developments in the New Zealand standard setting process followed similar developments elsewhere. This was in both accounting theory and accounting standards.

¹²² G.J. Staubus, *A Theory of Accounting to Investors*, (Berkeley, 1961).

¹²³ Miller and Redding (1988).

¹²⁴ Hines (1989); West (1996).

¹²⁵ T. van Zijl interview 16 July 2009.

The international dimension in standard setting extended to the standards themselves as the standard setting process usually involved standard setting associations and boards studying standards produced elsewhere and using these as a starting point for their standards. This was more so in the United Kingdom than in the United States, and especially so in smaller countries like Australia and New Zealand. With the rare exception of SSAP-17, from the beginning New Zealand accounting standards were based on overseas standards. Even when financial accounting theory in New Zealand took a new direction as in 1992, when the New Zealand Institute released its framework for financial reporting and for a few years the New Zealand accounting profession had a well deserved reputation for an innovative approach that encompassed sector neutral standards, the theory was still based on British, American and Australian frameworks. In fact, the international element in New Zealand and other financial accounting theory has increased in recent years with increasingly general acceptance of international financial reporting standards and hence the conceptual framework of the International Accounting Standards Board (IASB). Despite government involvement and legislation dictating many aspects of external financial reporting, the profession has succeeded and for the most part controlled the development of financial accounting theory, guiding the evolution of accounting standards for external financial reporting.

Conclusion

This chapter reviewed the development of financial accounting theory exploring in particular why the accounting profession went to such lengths to do so. The chapter also identified an international element in developing financial accounting theory and its influence on standard setting. For several decades in the second half of last century the accounting profession made great efforts to develop financial accounting theory to improve the nature of accounting standards and hence increase the authority of accounting standards. However, the profession found that creating generally accepted accounting practices let alone developing a conceptual framework for accounting standards was complicated. Despite much debate and the application of some good minds, the profession had difficulty finding a generally accepted theory to underpin the processing of entity transactions. The problem was in the standards themselves as a body of knowledge. The origins of standard setting lay in the codification of existing practice, which produced standards that varied in

content and consistency.¹²⁶ This issue of the practical nature of accounting standards was accentuated by the profession's disagreement over what the standards were to achieve and what information the reports were supposed to convey.¹²⁷ As this chapter demonstrates, these problems were partly responsible for the numerous theoretical proposals, inductive and deductive, by individuals and associations, academics and practitioners, few of which achieved wide support. The debates within the profession over what theory should prevail lay in the different approaches to standard setting, for whom the profession was delivering this service and how this was to be carried out.¹²⁸

That these disagreements posed challenges for the profession may be understood in the wider context of professionalisation. As chapters two and three showed, these debates were a consequence of accounting as a profession ensuring that its activities enhanced its professional reputation. Chapter two explored the origins of the accounting profession and illustrated, through a functionalist approach, how accounting is a profession. This chapter showed that accounting has the characteristics of a profession, including the early creation of accounting associations that allowed accountants to act collectively in the interest of the public by controlling access to the body of accounting knowledge and, with the support of the state, monopolise the delivery of accounting services.¹²⁹ Chapter two also introduced a sociological, interactionist approach to inform and provide a theoretical framework to explain why the accounting profession came to develop a new accounting service, standard setting. This approach included a discussion of Larson's model of professional behaviour, which proposes that an occupation becomes a profession through application of a professional project.¹³⁰

Chapter three began the exploration of standard setting as an example of professional behaviour, examining the nature of accounting standards and why the accounting profession carried out its role as standard setter, showing how the profession's actions were influenced by its relationship with the state. The literature discussed in this chapter documented the changing interaction between the profession and the state during the twentieth century as the accounting profession faced several challenges as standard setter, among them economic events, such as share market

¹²⁶ Gaffikin (1979).

¹²⁷ Muis (1977).

¹²⁸ Miller and Redding (1988).

¹²⁹ Willmott (1986).

¹³⁰ Larson (1977).

crashes, that led to a questioning of the independence of the profession as standard setter in acting in the public interest.¹³¹ These criticisms of the effectiveness of accounting standards resulted in the profession making the standards more regulatory and the state increasing its level of intervention in the standard setting process.

The challenges for the profession, as noted in the literature, stemmed from the nature of accounting knowledge which the profession partially overcame through international cooperation and sharing of ideas, standards and frameworks.¹³² Standard setting has always had an international dimension but this has become increasingly significant in recent years with many countries adopting international accounting standards. Several researchers, including Hines, Poullaos and West, have applied Larson's model in their studies of the accounting profession. Hines did so in her study of the nature of financial accounting theory and others, such as Poullaos and West, have taken an approach similar to Larson's in their studies of professionalisation and monopolisation of services.¹³³ The defining characteristics of the actions of professional associations to dominate and maintain dominance of an accounting service by controlling the knowledge and negotiating with the state to carry out that service were identified and explored in the literature on standard setting.

Chapters two and three therefore provided evidence from the literature that these characteristics have been identified by researchers in the increasingly regulatory nature of accounting standards, the strong international dimension to standard setting and the relationship of the profession with the state. This chapter adds to the evidence that standard setting is a professional activity, arguing that developing financial accounting theory signalled the importance the accounting profession placed on its role as standard setter; that the accounting profession saw standard setting as a professional activity and linked to its professional reputation explains why it persevered in trying to develop financial accounting theory. As this chapter demonstrates, the profession eventually managed to create conceptual frameworks, making standards clear, coherent and consistent. However, the debate on financial accounting theory has not finished. In New Zealand, the Institute was an interested observer in the development of financial accounting theory rather than a participant, and benefited by using standards developed overseas within the conceptual

¹³¹ Watson (1981); Merino and Neimark (1982); Clarke (2004).

¹³² Hines (1989); West (2003).

¹³³ Hines (1989); West (2003); Poullaos (2009).

frameworks.¹³⁴ This international dimension to New Zealand standard setting was a reflection of the ongoing debates on financial accounting theory elsewhere. An important outcome of the international element in the growth in financial accounting theory was the creation of international accounting standards which today are being adopted in most countries, including New Zealand. Standard setting was not an early choice of the accounting profession as a professional activity but the evidence of the literature shows that once the profession became a standard setter it made determined proactive and reactive efforts to improve standards. This thesis argues that Larson's model of professional behaviour helps interpret these actions.

The historic narrative of the history of standard setting by the New Zealand Institute, set out in chapters five to eleven, aims to verify if the themes identified in this section of the thesis are apparent in the New Zealand history, in the process answering the questions of why and how the New Zealand Institute became a standard setter. The history is analysed to determine whether, as a case study, it confirms Larson's model of professional behaviour and thus test the hypothesis that standard setting may be considered one means the accounting profession used in its professionalisation process.

¹³⁴ Johnston (1950); Carrington (1958).

SECTION TWO: STANDARD SETTING IN NEW ZEALAND

Chapter Five: Research Activity 1908 to 1937

Introduction

The history of accounting standards in New Zealand begins with the early research activities of the accounting profession. The accounting profession in New Zealand, keen to establish and maintain its new professional status, partly fulfilled this ambition in 1908 with the creation of the New Zealand Society of Accountants (NZSA/Society). As a professional association, the NZSA acted on behalf of members while actively supporting and helping them to give the New Zealand public the service expected of professional accountants.

The three sections in this chapter follow the pre-accounting standard history of the NZSA, before 1919, from 1920 to 1929 and from 1930 to 1937, looking in particular at the research activities of the Society during these times. An outstanding feature of this history was continuing debate within the Society on whether the responsibility for research should be the Society's or individual members'.

Setting the Scene: To 1919

From the first, the literature on professions has highlighted the importance of the professional association to the success of an occupation becoming a profession. Reader gave as one defining characteristic of professions that they had '...a voluntary professional association to provide advocacy and discipline..' and Lee saw professions as '...occupations organized in institutional form.'¹ Professionals, while independent and autonomous in their work, acted collectively to achieve and maintain professional status and they did so through their professional associations. It was the associations, on behalf of members, that promoted the profession and controlled the market for professional services. A sign of professionalisation was therefore the existence of a professional association and in accounting in New Zealand by the end of the nineteenth century there were a number of associations including the Auckland/Wellington Public Accountants Association and The Certified Accountants Association of New Zealand.²

The two most significant and long lasting associations were the Incorporated Institute of Accountants of New Zealand, registered in 1894 and recognised as the

¹ Reader (1966); Lee (1996).

² M. Nolan, 'Uniformity and Diversity: A Case Study of Female Shop and Office Workers in Victoria 1880-1939,' Extract from PhD Thesis (draft), (Wellington, 1989).

first 'organized society of accountants' in the country and the Accountants' and Auditors' Association, created in Auckland in 1898.³

Although little appears to be known about these organisations there was some degree of competition between them as they endeavoured to dominate or at the very least participate in the growing field of professional accounting.⁴ Graham observed that the Accountants' and Auditors' Association was founded by some Auckland accountants concerned about Wellington parochialism and how the Incorporated Institute conducted its examinations.⁵ This type of competition was not exclusive to New Zealand. Carnegie and Edwards have commented on competition between accounting associations in Australia as has Walker in his studies of accounting associations in the United Kingdom.⁶ Where the New Zealand history differs from these countries is that in 1905, the Incorporated Institute and the Accountants' and Auditors' Association agreed to cooperate to seek the legal registration of accountants. The two New Zealand associations realised that if they were to control the affairs of the profession in general they required state support.⁷ Furthermore, they knew that legislation would only be possible if they worked together on their application to Parliament and convinced the Parliamentarians that New Zealand would benefit from such a move.⁸

The common good was an important argument raised by the two accounting associations. Parliament required assurance that work carried out by a qualified accountant met a particular and known standard. It was a useful argument, frequently advanced by a number of professions and in some respects reflected their service ethos. In Scotland, for example, chartered accountants in the nineteenth century successfully defended their monopoly of their title on the functionalist ground of the common good.⁹ A legal foundation allowed an accounting association to regulate its

³ P. Barr, President of the NZSA, in his address at the first annual general meeting of the New Zealand Society of Accountants, *NZSA Yearbook* 1911, p.74.

⁴ For a discussion on what little is known about early members of these New Zealand accounting associations see Chapter two of this thesis.

⁵ Graham (1960), p.16.

⁶ Carnegie, G.D., and J.R. Edwards, 'The construction of the professional accountant: the case of the Incorporated Institute of Accountants, Victoria (1888),' *Accounting, Organizations and Society*, vol. 26, no. 4/5 (2001), pp.301-325; Walker (1995 and 2004).

⁷ Lee (1996), p.179; H.W. Robinson, *Accounting History and the Development of a Profession*, (New York and London, 1964), p.109.

⁸ Graham (1960), p.17.

⁹ Walker (1991), p.276.

members and, by restricting the service provided to the community, guarantee the work they carried out.

After a few attempts and setbacks New Zealand accountants achieved legislative recognition in 1908 when the New Zealand Government passed the New Zealand Society of Accountants Act.¹⁰ This Act constituted a new accounting association, the New Zealand Society of Accountants, gave legal protection to the use of the titles 'public accountant' and 'registered accountant' and set disciplinary provisions for the association.¹¹ Members of the NZSA had to be members of the Incorporated Institute, the Accountants' and Auditors' Association or a recognised British Empire accounting association, or have three years' experience as an accountant.¹² Both the Incorporated Institute and the Accountants' and Auditors' Association continued to operate. However, with its legal backing, the NZSA dominated to the extent that by the end of the 1970s it was the only one of the three associations still in existence.

The influence of the British accounting profession was evident in the new accounting organisation and this was not surprising. As noted in chapter two, the Imperial links between the United Kingdom and its colonies were strong in almost all areas of society.¹³ New Zealand's status changed from a colony to a British Dominion in 1907 and with the growth of the frozen meat and dairy industries, by the 1920s, the Dominion of New Zealand was heavily dependent on Britain for its trade in exports as well as imports.¹⁴ The British connection meant that NZSA members were also aware of developments in the profession in other countries with British links, especially Australia, Canada and the United States.¹⁵ As a result, the NZSA was structured in much the same way as accounting organisations in the United Kingdom and Australia. There was a Council, appointed by members that oversaw the running of the organisation and three Council committees, an executive committee, an education committee and a committee that dealt with technical and investigation issues. As a new organisation, the NZSA concentrated on the professionalisation of accountants

¹⁰ Graham (1960), p.24.

¹¹ Ibid, p.22.

¹² Ibid, p.25.

¹³ See for example, Chua and Poullaos (1998); Parker (1989 and 2005).

¹⁴ P. Mein Smith, *A Concise History of New Zealand*, (Melbourne, 2005), p.142.

¹⁵ In addition to accounting history literature on British links in accounting there are many studies on the links between Britain and her colonies. See, for example, P. Buckner and R.D. Francis (eds.), *Rediscovering the British World*, (Calgary, 2005).

through entry qualifications and requiring best accounting practice. Branches of the NZSA operated at the regional level, with a formal structure of officers and representatives on the Council. As part of the professionalisation process, branches met regularly to discuss many issues arising from the running of the branch as well as wider accounting topics, such as examinations and practical issues.

From 1906, accounting associations used the weekly New Zealand business periodical, *Mercantile Gazette*, to disseminate the results of their Council and branch meetings, decisions and discussions. The Gazette gave two or three pages, headed *The New Zealand Accountant*, to the three accounting organisations, which they filled with a variety of information from meetings to appointment of officers to examination questions and passes. Frequently there were articles based on speeches given in the United Kingdom, United States and Australia. From 1908, *The New Zealand Accountant* was the ‘official organ of the Accountants of New Zealand and The Union of Accountant Student Societies in New Zealand.’ Between 1910 and 1914, the official organ of the NZSA, *Accounting and Commerce*, replaced the *Mercantile Gazette*.¹⁶ *Accounting and Commerce* was a new and short lived publication produced by some Wellington members of the NZSA. In 1921, the Council resolved to buy the magazine and established a Board of Control to negotiate terms, but then almost immediately decided not to accept those terms.¹⁷ In 1922, the NZSA started its own magazine, *The Accountants’ Journal*, which continues to this day.¹⁸ Although most accounting articles originating in New Zealand could be said to be on administrative matters, there were a few articles showing that some individuals were carrying out research. *Accounting and Commerce* in 1915 printed J.M. Preston’s talk to the Wellington Accountant Students’ Society on reading external financial reports.¹⁹ In 1920, E.W. Hunt reviewed the lack of information in external financial reports, congratulating the Kauri Timber Co Ltd for the high quality of its financial reports,

¹⁶ Report of meeting of the Council 5 November 1914, *New Zealand Institute Archives* (Wellington).

¹⁷ Report of meetings of the Council 22 and 26 February 1922, *New Zealand Institute Archives* (Wellington).

¹⁸ E.W. Hunt, NZSA President in 1927, was the editor of *The New Zealand Accountant*, a section in the *Mercantile Gazette* from 1908 to 1914. The *Mercantile Gazette* continued to print pages dedicated to accounting issues for several years after 1914, although it was no longer the official publication for the accounting profession in New Zealand.

¹⁹ J.M. Preston, ‘The Interpretation of Published Accounts,’ *Accounting and Commerce*, 2:8 (1915), pp.182-185.

which Hunt printed for readers to see.²⁰ G.J.J. Feil contributed several articles to *The New Zealand Accountant* on production costing, outlining how to account for output.²¹

The participation of members such as Hunt and Feil made the NZSA an active professional accounting association, as the profession fulfilled public demand for accounting services. The NZSA had Australian connections and was modelled on British accounting associations. As with Australian and British accounting associations in their countries, the NZSA was occupied not just in supplying accounting services but also in maintaining professional status for its members in New Zealand society. It did so using the means that researchers such as Freidson and Larson later defined as characteristic behaviour of professional associations, including controlling the market for accounting services and the quality of specialised accounting knowledge.²² The NZSA had legislative backing for accounting services and it used the journal and branches of the Society to develop accounting knowledge. For some members of the NZSA developing accounting knowledge and hence improving the quality of accounting services required more than this.

The Pressure to Undertake Research: 1920 to 1929

During the 1920s there was considerable debate within the Society on the role of researching as a means of improving the quality of accounting services to the community. There was no debate for members about their obligations to society. Members recognised that to remain professional and be perceived as such, they needed to keep improving the quality of delivery of accounting services.²³ Government regulations, such as the Companies Act, dictated how businesses were to convey financial information but the community demanded, and the profession delivered, further accounting services. The NZSA's journal frequently reminded members of their duty to give service in the public interest, relaying this message in several articles reprinted from journals overseas and thus emphasising the connection the New Zealand profession had with the profession overseas. R.J. Dilworth at an

²⁰ E.W. Hunt editorial *The New Zealand Accountant* in the *Mercantile Gazette* 11 February 1920, pp145 and 146.

²¹ G.J.J. Feil wrote articles published in *The New Zealand Accountant* in 1920 on 'The Site as a Factor in Cost of Production', 'The Costing of the Produce of the Land' (five instalments) and 'Costing for the Woodworking Trades'.

²² Freidson (1986); Larson (1977).

²³ A. Crew, 'The Profession of an Accountant,' *The Accountants' Journal*, 4:7 (1926), pp.203-210.

annual convention of the Canadian Society of Chartered Accountants emphasised the responsibility of the profession to the investor.²⁴ Lord Rosebery in Britain, said ‘...the accountant was the financial conscience of the community.’²⁵ These comments carried some weight for accounting practice in New Zealand reflected more the influence of the accounting profession in the United Kingdom than the United States.

The British accounting profession emphasised practical accounting rather than theoretical accounting, so the New Zealand accounting profession did likewise. Indeed, the first editorial in the NZSA’s journal to refer to practical standards of education, ethics and discipline in the accounting profession made no mention of accounting principles.²⁶ But to provide more professional services accountants needed to examine and review accounting practice. How to do so was the subject of much debate within the NZSA. Some individuals in the profession, in New Zealand as elsewhere, were beginning to consider the theoretical underpinning of accounting practice. F.H. Harris, in an essay published in the *Journal* in 1923, for example, illustrated the universality of application of recognised accounting principles.²⁷ However, his essay was vague on what those principles were and he did not discuss them. For many accountants at this time, the use of the word ‘principle’ appeared to be less a theoretical basis for working and more a consistent regulation of behaviour. Other individuals felt that improving accounting services was best done through research. Griffin, in an editorial in *The Accountants’ Journal* noted, ‘accountancy owes a debt to clients...and the community generally in respect of research and science investigation into... important (accountancy related) problems.’²⁸ Griffin was critical of the lack of research in the NZSA and he suggested some accounting issues the Society should study, such as depreciation, taxation and valuation.²⁹ Griffin favoured practical accounting rather than the theoretical approach of fellow NZSA

²⁴ R.J. Dilworth, ‘The Accountant’s Duty to the Investing Public,’ reprinted in *The Accountants’ Journal*, 7:9 (1929), pp.281-283.

²⁵ C.T.A. Sadd, ‘A Banking View of Balance Sheets,’ *The Accountants’ Journal*, 5:10 (1927), pp.297-300.

²⁶ As Edward Stamp noted some decades later, ‘There is... much less emphasis on the academic or intellectual aspects of accounting in Britain.’ Quoted in *Edward Stamp: later papers*, M.J. Mumford (ed.), (New York and London, 1988), p.49; J.L. Griffin, ‘What is a Profession?’ *The Accountants’ Journal*, 4:12 (1926), pp361-362.

²⁷ F.H. Harris, ‘Pakapoo, from an Accountancy Aspect,’ *The Accountants’ Journal*, 2:5 (1923), pp.161-162.

²⁸ J.L. Griffin, ‘The Profession and its Research Obligations,’ *The Accountants’ Journal*, 5:5 (1926), pp.129-130.

²⁹ J.L. Griffin, ‘The Profession and its Research Obligations,’ *The Accountants’ Journal*, 5:5 (1926), pp.129-130.

members such as Harris. He suggested that the research methodology could be collecting data on important industries in New Zealand and he quoted the British accountant, Sir Josiah Stamp. ‘... [I]t is a reproach to us if we are not making our fair and proportionate contribution to the body of practical knowledge which it has always been the duty...of a chosen few in the other professions to confer on their fellows.’³⁰ Stamp was not advocating that all members of the profession do research, just a few on behalf of others, and Griffin agreed.

The NZSA Council however, saw improvement of accounting practices as an obligation on members of the Society rather than the Society itself. This stance emphasised the concept of the professional as independent and autonomous, using skill and individual judgement in their work. Professional associations, as Lee noted in his study of the Society of Accountants in Edinburgh, acted on behalf of members, and while monitoring member behaviour they did not dictate how members worked.³¹ The NZSA Council consequently saw improvements in accounting practice coming from members at branch level through meeting and sharing ideas, rather than the Society collecting and analysing data as Griffin and others wanted. Some branches however thought otherwise. The Wellington branch was the most insistent on calling for the Society to carry out research. This was in some measure because of the efforts of one individual, Feil, who was a keen researcher and prominent advocate for the accounting profession, through the NZSA, to engage in research. Other members of the Wellington branch who agreed with Feil included F.H. Bass and Griffen, public accountants, well known members and contributors to the Society and the journal.³²

Feil was especially vocal in his insistence on the NZSA doing more to improve accounting practice. He must have engaged in some fiery exchanges in Wellington branch meetings if correspondence in the journal in 1926 is anything to go by. In this year, Feil took exception to an editorial in *The Accountants’ Journal* that claimed that the profession had not carried out enough research, responding in a letter to the Editor that he had published work on accounting issues conducted at his own expense.³³ He called on the Society to lead the way, finance research and encourage all members to do research. Griffin responded to Feil’s letter with some bemusement, noting that Feil appeared to imply that any research to date had encountered ‘...a

³⁰ Ibid.

³¹ Lee (1997).

³² Appendix E.

³³ G.J.J. Feil, ‘Correspondence: Research Obligations,’ *The Accountants’ Journal*, 5:6 (1926), p.188.

certain amount of thinly veiled opposition.’³⁴ It is interesting that the two men disagreed when they were both trying to encourage accounting research. It is possible that they saw research from different points of view. Feil’s work focused on explaining and discussing applications of accounting as in production costing.

To Griffin, research required collecting data. In 1926, he supported a request from the New Zealand Department of Agriculture, which was researching farm finances, for the names of farmers who kept accounting books.³⁵ Bass, who succeeded Griffin as editor of the *Journal*, agreed that the profession should be collecting data ‘for general use in the Dominion’ suggesting that the NZSA could compile and analyse business statistics, including average gross profit, and percentage of bad debts to turnover. Accountants should do this, Bass claimed, because business owners were reluctant to disclose such details about their businesses.³⁶ In an editorial, Bass noted that American universities compiled statistics for general use. He also printed Sir Josiah Stamp’s paper on the use of statistics in the United Kingdom.³⁷ Bass acknowledged that New Zealand was too small to emulate the American university system of data collection but he thought that it was possible that ‘...by proper cooperation between the Chambers of Commerce, Trade Associations and public accountants of the Dominion, a system can be devised, whereby certain standards can be set up for general guidance.’³⁸ Collecting statistical data implies its use in financial management rather than in accounting. However, as Bass noted, such information could form the basis for accountants to act as financial advisors.

In 1928, the Wellington branch of the NZSA submitted a remit to the annual meeting of the Society:

That it be a recommendation to the Council to set up a special Committee to devise a scheme for the collection of data in connection with both the primary and secondary industries of the Dominion; such data to be supplied by the members of the Society from their practical experience so as to indicate the lines along which research work might be most profitably done.³⁹

³⁴ J.L. Griffin, editorial note to G.J.J. Feil’s letter, *The Accountants’ Journal*, 5:6 (1926), p.188.

³⁵ J.L. Griffin, ‘Rural Economics Research,’ *The Accountants’ Journal*, 5:6 (1926), pp.161-162.

³⁶ F.H. Bass, ‘Comparative Business Statistics,’ *The Accountants’ Journal*, 7:1 (1928), p.2.

³⁷ *Ibid*, (1928), p.2; F.H. Bass, ‘The Accountant’s Value to the Business Public,’ *The Accountants’ Journal*, 7:9 (1929), p.257 and F.H. Bass, ‘Standardisation,’ *The Accountants’ Journal*, 8:4 (1929), p.113.

³⁸ F.H. Bass, ‘Comparative Business Statistics,’ *The Accountants’ Journal*, 7:1 (1928), p.2.

³⁹ Report of Council Meeting 27 and 28 August 1928, *The Accountants’ Journal*, 7:3 (1928), pp.75-76.

The meeting rejected the Wellington proposal, even though the Canterbury and Hawkes Bay branches supported the remit.⁴⁰ However, the Council responded to the Wellington remit by resolving to

(ask) the Faculty of Economics at the four University Colleges and the New Zealand Branch of the Economic Society to indicate whether there are any directions in which the Society might cooperate with them in the collection of data in connection with both the primary and secondary industries of the Dominion.⁴¹

This response from the Council showed that the NZSA was aware that research of this nature was necessary, and did not oppose it. Rather, the problem was that the Society could not, or did not wish to, undertake the collection of data. Unfortunately, the request to the University Colleges was unsuccessful. Replies came from three of the University Colleges, regretting that they could not undertake the research. Possibly the Colleges did not have the capacity to collect data or the interest, as there were no specialist accounting academics at this time. Equally possible is that university personnel may have considered that this was not the task of the University, for they recommended that the Society approach the Government Statistician. Council, however, decided that it was too difficult to obtain data and resolved to take no further action.⁴²

Rejection did not deter the Wellington branch. The Council and the University Colleges could not help but Wellington members were determined to do something. Within a few weeks of the annual meeting, the branch appointed Feil and T. Auton 'to investigate the best methods by which the Society can assist research work.'⁴³ A few months later, the Branch established a subcommittee to work with the Incorporated Institute and come up with ideas. H. Valentine was the Chair. The other members of the subcommittee were Auton, Feil and J.L. Arcus. Valentine and Feil were members of both the NZSA and Incorporated Institute. The subcommittee reported to the Wellington branch of the Society giving a summary of overseas developments, concluding that there were many areas for research in business and finance in New Zealand and accountants should take the lead in doing this research 'by virtue of their specialised training, intimate knowledge of business conditions and widespread

⁴⁰ Report of Council Meeting 27 and 28 August 1928, *The Accountants' Journal*, 7:3 (1928), p.76; Report of the Committee on Research, 'Industrial Research,' *The Accountants' Journal*, 8:2 (1929), pp.45-48.

⁴¹ Report of Council Meeting 27 and 28 August 1928, *The Accountants' Journal*, 7:3 (1928), pp.75-76.

⁴² Report of Council Meeting 22 February 1929, *The Accountants' Journal*, 7:9 (1929), pp.259-261. The Professors of Economics at Auckland, Victoria and Otago responded.

⁴³ Report from the Wellington Branch, *The Accountants' Journal*, 7:4 (1928), p.101.

influence.’⁴⁴ Areas of possible research identified by the subcommittee included collecting statistical and financial data, financial standards and ratios, financial and economic investigations and the technique of accounting.

The subcommittee recommended that the NZSA establish a permanent research committee, members of which did not need to be NZSA members. Further, the subcommittee recommended the NZSA appoint a full time research officer and provide prizes or bursaries for members doing research.⁴⁵ The research committee should consider what was happening in accounting research overseas and coordinate research in New Zealand. The research officer was to do the actual research, with the support of members, and organise accounting literature and the Society’s library. Council considered the Wellington report and decided to approve a research committee only if members at the coming annual meeting agreed, but that any such committee should have only Society members. The Council, however, did not agree with the idea of appointing a Research Officer.⁴⁶

In 1929, at the Society’s annual meeting, Bass and Feil, as representatives of the Wellington branch, put forward the recommendations of the subcommittee.⁴⁷ A delegate from Dunedin supported the recommendations but the majority of delegates present opposed them. Instead, the meeting passed an amendment to the proposal approving the third recommendation: prizes for individual research. The decision by the members present at the Society’s 1929 annual meeting to reject the motion to establish more formal research opportunities within the Society went against trends overseas. As Zeff noted, accounting organisations in both the United Kingdom and the United States had created research committees.⁴⁸

Those who opposed the remit gave three reasons. There was no one with the necessary skills available in New Zealand to do the research, a research committee or research officer was too expensive for the Society and data collection was more properly the task of the Government Statistician.⁴⁹ Of the three reasons, cost appeared

⁴⁴ Report of the Committee on Research, ‘Industrial Research,’ *The Accountants’ Journal*, 8:2 (1929), pp.45-48.

⁴⁵ *Ibid*, (1929), pp.45-48.

⁴⁶ Report of Council Meeting 26 and 27 August 1929, *The Accountants’ Journal*, 8:3 (1929), p.94.

⁴⁷ Report of Annual General Meeting 26 and 27 August 1929 *The Accountants’ Journal* (1929) 8(3), p87.

⁴⁸ Zeff (1972 and 1973). See also the Report of the Committee on Research, ‘Industrial Research,’ *The Accountants’ Journal*, 8:2 (1929), pp.45-48. The *Journal* published an article by J C Kirkwood from *The Australian Accountant and Secretary* on ‘Some Results of Business and Market Research’.

⁴⁹ Report of Council Meeting 27 August 1929, *The Accountants’ Journal*, 8:3 (1929), p.95.

to be the greatest impediment. Some branches were already questioning the cost of sending the *Journal* copies of lectures delivered in their meetings, so the costs and impracticability of collecting data from branch members and sending the data to a research officer in Wellington must have seemed very great.⁵⁰ New Zealand was a small country and the NZSA was not a large accounting association. Members would have to pay higher subscriptions for the Society to employ a research officer.

The argument that there was no one in New Zealand able to carry out the research was also understandable given the size of the association. There were a few individuals like Feil who, although in public practice, were willing to do research and publish their findings but there were no accounting academics. Accounting was not a university discipline at this time and the University of New Zealand Colleges had already indicated their reluctance to help the association in any research activities.

These disadvantages outweighed the perceived benefits of research, even though some of those calling for national level research in the Society were prominent members of the Society, including the Editor of the *Journal*. Some, such as Griffin, were Presidents of the Society, or men who were later to become Presidents after serving on the Council. Given their involvement and prominence in the Society, their lack of success was surprising, for they remained unsuccessful in persuading Council to set up research committees, let alone employ a research officer.

The Council resolved to implement the amendment passed at the 1929 annual meeting by establishing research competitions with prizes. At the first meeting of the Council immediately after the annual meeting, a subcommittee of Bass, Valentine and Feil was asked to look at how to award prizes for research.⁵¹ The Council's prompt response did not mean that all members agreed with the decision made at the annual meeting. Valentine, as chair of the Wellington branch's subcommittee on research, wrote to the *Journal* criticising Council members for not supporting the Wellington remit. He rejected the reasons given at the annual meeting for not appointing a full time research officer or permanent research committee, demanding to know when would be an opportune time to do research, that there were people in New Zealand with the skills to do research and the Society had the funds to spend in this area.

⁵⁰ In 1924, the Taranaki Branch, for example, complained of the cost, personal and financial, of supplying the *Journal* with a copy of the talks given at meetings of its student society. Source: 'Summary of Proceedings of the Fifteenth Annual Meeting of Members,' *The Accountants' Journal*, 3:3 (1924), pp.65-79.

⁵¹ Report of Council Meeting 27 August 1929, *The Accountants' Journal*, 8:3 (1929), p.95.

Valentine reiterated why the NZSA should carry out research, reminding members that the Society had to take the lead because it had professional responsibilities to the public and the wider community.⁵²

Bass had introduced the same point a year earlier, asking ‘who will take the lead?’⁵³ If members such as Bass, Valentine and Feil had their way, the Society would have done so. They were not the only ones calling for the NZSA to conduct research. In 1929, N. Francis, speaking on behalf of the local Chamber of Commerce at a dinner held by the Christchurch Branch of the Society, said that research in accounting was necessary.⁵⁴ Any research was the result of the enthusiasm of individuals rather than a serious goal of the Society.

The editors of the *Journal* continued to press for more research. Editorials in the *Journal* during the 1920s outlined what the editors considered to be suitable and necessary accounting research. Earlier in the decade, the editors stressed the importance of collecting data. By 1929, editorials were emphasising the need for research on standardisation of accounting, a more theoretical, yet still relatively practical, aspect of accounting. The first of two editorials on this issue explored the idea of standardisation of accounting methods as a general guide for members, noting that this would simplify what accountants needed to do and enable greater use of business information. The second editorial invited comments from members on the use of standardised forms in business.⁵⁵ The *Journal* reprinted articles from overseas on external financial reporting. In the United Kingdom, C.T.A. Sadd wrote ‘A Banking View of Balance Sheets’, which looked at the use of the balance sheet when a company was consulting with a bank for a loan.⁵⁶ E.S. Wolfenden analysed company balance sheets in Australia and in 1929, the *Journal* published another article from *The Commonwealth Journal of Accountancy*, an address on the preparation of final accounts delivered by J.L. Sargent to Tasmanian accounting students.⁵⁷ Sargent discussed the clarity of final accounts and their usefulness to users, in particular, format, terminology, and a demand for standardisation of final accounts

⁵² ‘Correspondence,’ *The Accountants’ Journal*, 8:5 (1929), pp.173-174.

⁵³ F.H. Bass, ‘Comparative Business Statistics,’ *The Accountants’ Journal*, 7:1 (1928), p.2.

⁵⁴ Report of Christchurch Branch, *The Accountants’ Journal*, 8:6 (1929), p.204.

⁵⁵ Report of Council Meeting 22 February 1929, *The Accountants’ Journal*, 7:9 (1929), pp.257-258 and F.H. Bass, ‘Standardisation’, *The Accountants’ Journal*, 8:4 (1929), p.113.

⁵⁶ Sadd (1927), pp.297-300.

⁵⁷ E.S. Wolfenden, ‘Criticism of a Company’s Balance Sheet,’ *The Accountants’ Journal*, 6:8 (1928), pp.252-257 and J.L. Sargent, ‘Preparation of Financial Accounts,’ *The Accountants’ Journal*, 7:8 (1929), p.227.

to enable comparisons between years within a company as well as between businesses.

The internal debate on whether the NZSA should undertake research on behalf of members had now extended to a debate on whether some of that research should be part of the profession's response to external pressure for it to improve the accessibility of information in external financial reports, for example by helping to standardise these reports. As discussed in the next section, this pressure was in part a consequence of changing economic circumstances that became more apparent from the end of the decade and investors became more dependent on the information in entity external financial reports. The pressure on the profession also highlighted a more general change in social expectations of the accounting profession elsewhere, not just in New Zealand. As Zeff observed in his studies of the accounting profession in several countries, societies were demanding that the accountant provide more direction in financial reporting.⁵⁸ Fulfilling that demand was to become a public professional responsibility of accountants.

Researching the Standardisation of Accounts: 1930 to 1937

Economic events during the 1930s directly and indirectly affected the response of the NZSA to general calls for more reliable external financial reports. The Society initiated a variety of ways members could develop their skills in supporting clients but the emphasis remained on encouraging individual autonomy in practice and research. By the end of the decade, however, despite misgivings from some members the Society was moving from ad hoc to formal research in several areas.

The variety of accounting issues that needed studying was, as Bass commented in 1930, of 'unlimited scope' and members regularly presented suggestions for possible areas of research at NZSA meetings.⁵⁹ In an editorial, W. Appleton wrote '[t]here is ample scope for investigation and research into various phases of accountancy practice...accountancy cannot afford to rest on the achievements of the past.'⁶⁰ He suggested topics could include value of stock, depreciation and company accounting, but whichever topic, the New Zealand

⁵⁸ Zeff (1972, 1973 and 1979).

⁵⁹ F.H. Bass, 'The Convention,' *The Accountants' Journal*, 8:9 (1930), p.273; 'Report of the Convention: The Consideration of Branch Remits,' *The Accountants' Journal*, 8:9 (1930), p.317. The Wellington subcommittee on research had proposed a number of measures, including establishing a national committee on research and encouraging research through competitions that offered prizes.

⁶⁰ W. Appleton, 'Post-Graduate Training,' *The Accountants' Journal*, 16:12 (1938), pp.749-750.

accounting profession, as in the United Kingdom and the United States, continued to emphasise best practice, or, as G.O. May put it, ‘the distillation of experience.’⁶¹ However, following major international economic events, including disclosure of company fraud, financial reporting was becoming a worldwide accounting issue in urgent need of review and revision.

The Stock Market Crash in 1929 and Great Depression of the 1930s raised the issue of the quality of external financial reports issued by entities listed on stock exchanges. As businesses became larger and more complex, the assurance of auditors that the financial reports of management were reliable became more important. Shareholders as entity owners and intending investors increasingly relied on accountants to verify an entity’s financial reports. Pressure was therefore on the accounting profession to provide a service that allowed effective and informative decision-making by shareholders and investors. The accounting profession worldwide responded in a number of ways to this pressure, one of which was research into how to be as effective as possible.

In New Zealand, the NZSA’s response to these pressures to improve the quality of external financial reporting was to study accounting in selected industries, and to do this through the thesis competition. Council saw the thesis competition as a feasible way for the NZSA to guide members and at the same time enable individuals within the Society to do research that would benefit all members. Many members, including the *Journal’s* editors, agreed. Bass saw the competition as allowing the creation of a specialised accounting literature pertinent to New Zealand.⁶² Griffin hoped that a standard textbook would come from the successful essays.⁶³

During the 1930s, there were three thesis competitions. The first thesis award was in 1933 and the winner received a substantial prize plus a gold medal. The topic was Dairy Industry Accounting. The second thesis award was in 1936 with a similar prize. The topic this time was Local Authorities’ Finances and Accounts. At the suggestion of the Auckland branch, the third thesis competition in 1939 had an open topic, the winning thesis being on Executorship Accounts. It is possible to see a link between the first thesis topic and the demands for industry data that some members

⁶¹ Quoted by R.K. Storey and S. Storey, *The Framework of Financial Accounting Concepts and Standards*, *Financial Accounting Series, Special Report*, (Norwalk, Connecticut, 1998), p.3.

⁶² F.H. Bass, ‘The Convention,’ *The Accountants’ Journal*, 8:9 (1930), p.273.

⁶³ J.L. Griffin, President’s Address in ‘Summary of Proceedings of the Twenty First Annual General Meeting of Members,’ *The Accountants’ Journal*, 9:3 (1930), p.67.

wanted a decade before. The agricultural sector was important in the New Zealand economy. Therefore, any information about helping the dairy industry to be more efficient, as well as improving the method of accounting, would be valuable to the industry as well as interested parties. *The Accountants' Journal* published the three winning essays, thus helping to spread accounting ideas and methods among members. However, the competition and the publication of the winning essays remained the only steps taken nationally by the Society as regards promoting research in accounting in New Zealand.

In a further move, in March 1934, Council appointed yet another subcommittee to consider the matter of future research competitions, but the extent of the subcommittee's ideas appeared to be limited to inviting members to submit suggested topics for future thesis competitions.⁶⁴ Later in the decade, in a variation on the national thesis competition, the Auckland branch introduced a 3,000 word essay competition, the topic to be an investigation of a particular problem in a business. The aim of this competition, which was open only to Auckland branch members, was 'to encourage research, particularly among the younger members.'⁶⁵

Debate continued within the NZSA on what and how to conduct research. NZSA members like Feil pressed for more formal opportunities for research. Advocates for formal research pointed out that this would make it possible for Society personnel to carry out research on behalf of members. Not everyone agreed. An editorial in 1937 encouraged members to do research themselves, rather than rely on national level research 'because this is the way for the accounting profession to progress.'⁶⁶ Some individuals within the NZSA, while not opposed to research, did not see why Council should be involved at all. A Dunedin representative at the 1930 NZSA Convention noted that 'true' researchers did not work for money so why should the Society pay for this.⁶⁷ However, organisations outside the NZSA continued to see the need for the NZSA to take the lead in researching accounting issues such as external financial reporting. Valentine, speaking at the Society's Convention in 1930, reminded members that the Manufacturers' Association expected this of the

⁶⁴ W. Appleton, 'Research Competitions,' *The Accountants' Journal*, 12:9 (1934), p.282.

⁶⁵ Report from the Auckland Branch, *The Accountants' Journal*, 17:12 (1939), p.386.

⁶⁶ W. Appleton, 'Accounting Research,' *The Accountants' Journal*, 15:10 (1937), p.293.

⁶⁷ 'Report of the Convention: The Consideration of Branch Remits,' *The Accountants' Journal*, 8:9 (1930), p.318.

profession.⁶⁸ But at the 1930 Convention, Griffin, now President noted that Council ‘did not consider the time yet opportune for a permanent research organisation.’ He asked if the Wellington branch would accept ‘as an instalment, a research committee.’⁶⁹ As the member representing the Wellington branch, Feil agreed with a new motion ‘that in order to encourage accountancy research, steps be taken to set up a Research Committee.’⁷⁰ Although the meeting passed this motion, the Council does not appear to have set up a research committee. Council continued to focus on the thesis competitions.

In 1935, Council asked Valentine to collect information on what type of post graduate level study the NZSA should undertake, or at the very least, encourage.⁷¹ The President, P.B. Foote, commented at the annual meeting on 27 February 1936 that no matter what Valentine found, ‘...one cannot stress too strongly the necessity that exists for our members to keep abreast of the latest developments in accountancy and the law as it affects our profession’, thus reiterating the Council’s view that the objective for research was to improve accounting services.⁷² Foote proceeded in his address to encourage members to do research even if there was no prize and he noted that Council was unable to fund more work. However, the pressure was still on the Council to provide formal means of conducting research. At the annual meeting in 1936, for example, Auton urged the Council to employ a full time research officer.

Valentine delivered his findings to the Council meeting in February 1937, which referred his report to the Education Committee.⁷³ The Education Committee studied the report and discussed what the NZSA should do, including whether the NZSA should support a bursary for an NZSA member to study in London. It was at this meeting that W.R. Brown made a suggestion that was to have long term repercussions for research activities in the NZSA, recommending that the Society should copy the accounting profession in Melbourne and set up Study Circles. The Council rejected this suggestion, saying that the NZSA was too small for study

⁶⁸ ‘Report of the Convention: The Consideration of Branch Remits,’ *The Accountants’ Journal*, 8:9 (1930), p.317.

⁶⁹ ‘Report of the Convention: The Consideration of Branch Remits,’ *The Accountants’ Journal*, 8:9 (1930), p.318.

⁷⁰ *Ibid*, (1930), p.318.

⁷¹ Report of Council Meeting 11 October 1935, *The Accountants’ Journal*, 14:4 (1935), p.117.

⁷² ‘Proceedings of the Twenty Seventh Annual General Meeting of Members, 27 February 1936,’ *The Accountants’ Journal*, 14:9 (1936), p.276.

⁷³ The details of the report are not known.

groups, but some members warmed to this idea.⁷⁴ As discussed in the next chapter, in 1938 the Auckland branch had the enthusiasm and motivation to create study groups. In the meantime, the Council favoured the idea of a Society library. C.H. Wynyard, in his Presidential address at the annual meeting in 1937, was ‘...hopeful that Council may be able to establish a Special Research or Central Library where works and publications of an advanced nature would be available for members...’⁷⁵ Branch libraries were already in existence but they were small and not used widely.

The NZSA’s official approach to research differed from the approach taken overseas.⁷⁶ Unlike the NZSA, accounting organisations in both the United Kingdom and the United States had national committees carrying out research during the 1930s. In 1935, for example, the British Society of Incorporated Accountants and Auditors established a research committee to guide any research and publicise research results that improved ‘the techniques of the profession’, showing again the emphasis of the accounting profession on practical matters, that is, best practice.⁷⁷ In the following year, the Institute of Chartered Accountants in England and Wales set up a new body, the Accounting Research Association, to carry out similar work.

In the United States, research in the 1930s took a different path from the British profession because the collapse of the American stock market in 1929 highlighted the need for more informative external financial reports. The American Institute of Accountants responded to public pressure for the accounting profession to do something by establishing a Special Committee on Cooperation with Stock Exchanges that corresponded with the Exchange’s Committee on how to improve the level of disclosure in external financial accounts issued by publicly listed entities. The Special Committee released its correspondence to Institute members in 1934 under the title ‘Audits of Corporate Accounts’, one of the key points being that auditors were to attest that a client’s financial reports presented a fair or otherwise account of the business ‘in conformity with accepted accounting principles.’⁷⁸ These principles were elicited from existing accounting practice and the use of the term ‘principle’ was

⁷⁴ Report of Education Committee Meeting 27 April 1937, *The Accountants’ Journal*, 15:11 (1937), p.339.

⁷⁵ C.H. Wynyard, President’s Address in ‘Summary of Proceedings of the Twenty Eighth Annual General Meeting 25 February 1937,’ *The Accountants’ Journal*, 15:9 (1937), p.273.

⁷⁶ ‘Report from 4th International Congress on Accounting,’ *The Accountants’ Journal*, 12:3 (1933), p.89.

⁷⁷ W. Appleton, ‘Research Work: A Lead in London,’ *The Accountants’ Journal*, 14:1 (1935), p.28. The subtitle may be a hint from Appleton as to what he thought the NZSA should be doing.

⁷⁸ Storey and Storey (1998), p.4.

defined later by the then Chair of the Institute's committee as 'a general law or rule adopted or professed as a guide to action; a settled ground or basis of conduct or practice.'⁷⁹ Importantly, the Special Committee did not attempt to describe a theoretical basis for these principles but recommended that the American Institute set up a committee of accountants, lawyers and other interested parties to do so. At the same time, the United States Government acted to protect investors by passing the Securities Exchange Act 1934. The Act created the Securities Exchange Commission (SEC), which had the authority to prescribe accounting and auditing practices in external financial reports. In 1937, the SEC informed the American Institute that if the accounting profession did not develop a set of accounting principles and reduce areas of difference in accounting practice then it would. In 1938, the SEC issued Accounting Series Release No 4 'Administrative Policy on Financial Statements' which required entities to use accounting principles that had 'substantial authoritative support'. In response to these pressures, the American Institute enlarged the Committee on Accounting Procedure to study and pronounce on accounting principles. The Institute intended the committee to be its source of 'substantial authoritative support' for accounting principles, as required by the SEC.⁸⁰

In the United States and the United Kingdom, some research had a more academic focus that was to have consequences for the development of financial accounting theory. The research committee set up in 1935 by the United Kingdom's Society of Incorporated Accountants and Auditors aimed to study the design of accounts, 'especially the general principles of the presentation of accounts.'⁸¹ In the United States, the American Institute of Accountants' use of the phrase 'accepted principles of accounting' provided a stimulus for research in that country into the theory of accounting.

Thus the British and American approaches to external financial reporting had philosophical differences. In the United Kingdom, the professional accountant was an individual, who exercised sole judgment.⁸² Accordingly, improving the standard of work of accountants in the United Kingdom was voluntary. The result of any research that could improve accounting practice could only be placed before the accountant

⁷⁹ G.O. May, 'Principles of Accounting,' *The Journal of Accountancy*, December (1937), pp.423-424.

⁸⁰ Storey and Storey (1998), p.15.

⁸¹ 'London Notes,' *The Accountants' Journal*, 16:7 (1937), p.197.

⁸² A.A. Fitzgerald, 'Review: English and American Attitudes Towards Accounting,' extract from the Victorian Auditor-General's Report, in *The Accountants' Journal*, 21:1 (1942), p.5.

and it was up to the accountant to decide whether to accept this result. On the other hand, the accounting profession in the United States was more concerned with achieving uniformity of practice.⁸³ Research that could improve accounting practice was presented to the American accountant as something that had to be done and prescriptive, rather than could be done and discretionary. The Americans appeared to recognise the importance of research, especially research undertaken by the accounting organisations. They established research committees and employed research staff. In 1938, in part because of their academic connections, the American accounting profession produced a booklet on 'The State of Accounting Principles.'⁸⁴ M.S. Spence, in an address on 'The Art of Presentation' reprinted in *The Accountants' Journal*, referred to promulgations from the American Institute of Accountants.⁸⁵

The NZSA's refusal to establish a research committee may reflect different degrees of external pressures on the profession in New Zealand as compared to the profession in the United Kingdom and United States. The New Zealand economy was not as directly affected by the 1929 stock market crash as the economy in the United Kingdom or United States. New Zealand entities had not collapsed to the same extent as in other countries.⁸⁶ So the accounting profession here did not receive the same level of pressure to act to improve external financial reporting as the profession received in the other countries. However, the New Zealand accounting profession was aware of the impact on the American accounting profession of the consequences of the share market collapse, as well as the ongoing concern about financial reporting in many countries and there was some pressure on the New Zealand profession to respond. The quality of external financial reporting remained under scrutiny in New Zealand as some entities struggled with fluctuating land prices in the 1920s and the Great Depression in the 1930s.⁸⁷

The Great Depression may in part explain why the NZSA Council was reluctant to create a national research committee, for the cost of research remained a determining factor in Council decisions. Lack of finance was one of the reasons usually given by the Council when it was rejecting requests for such a committee but

⁸³ Ibid.

⁸⁴ Ibid.

⁸⁵ M.S. Spence, 'Some Notes on the 'Art of Presentation', *The Accountants' Journal*, 8:9 (1930), p.303.

⁸⁶ G.R. Hawke, *The Making of New Zealand: an economic history*, (Cambridge, 1985), p.101

⁸⁷ D. Greasley and L. Oxley, 'The Pastoral Boom, the rural land market, and the long swings in New Zealand economic growth, 1873-1939,' *The Economic History Review* 62:2 (2009), pp.324-349.

the influence of economic events, such as the Great Depression, was less obvious in the NZSA's journal than might be expected given the significance of the depression on the New Zealand economy. Throughout the discussions and arguments about research, as seen in *The Accountants' Journal* during the 1930s, the negative effects of the Wall Street crash and the Depression were not highlighted or discussed. The *Journal* did not discuss New Zealand entities adversely affected by either the share market collapse or the resulting economic depression. There were articles describing the responsibility of the accountant, as auditor of publicly listed entities, to would be investors but there was no debate on the wider implications of the quality of external financial reports to the success of investment in business. In addition, there were no comments from NZSA members on what the New Zealand Stock Exchange was doing to prevent or minimise future company collapses. The general impression gained from reading the *Journal* from this time is that the accounting profession was more concerned with the particular rather than the general, focussing on improving the quality of accounting services provided by individual members. However, that did not stop the profession observing and commenting on external financial reporting throughout the 1930s.

The Accountants' Journal frequently referred to the unsatisfactory state of the external financial reports of some New Zealand entities. The higher the quality of external financial reports the more useful were the reports to users, such as management, shareholders and other interested parties; and although New Zealand did not have examples of notable reports, the accounting profession was aware of the need to improve external financial reporting.⁸⁸ G.W. Reid, at an annual meeting of the Canterbury branch, noted that shareholder concerns needed more recognition in the financial reports. An article in 1937 considered some 'Interesting Balance Sheets'. The article referred to the financial accounts of a mining company where the aggregate value of plant and machinery was shown as £1! There was increasing pressure from both inside and outside the accounting profession for external financial reports to be more accurate and useful. In 1937, the editor of *The Accountants' Journal* noted that '...it is desirable that there should be adopted some standard form

⁸⁸ See, for example, J.L. Griffin, 'Making Use of the Annual Accounts,' *The Accountants' Journal*, 2:7 (1924), pp.201 and 202.

of setting out the accounts', but the NZSA continued to rely on legislative changes.⁸⁹ The *Journal's* special correspondent from London quoted a British speaker advocating law change to compel entities to show assets at their true value.⁹⁰ Early in the decade, an editorial in *The Accountants' Journal* commented on full disclosure in balance sheets noting that auditors could not do much about the form of the financial reports. The editor hoped that the revised New Zealand Companies Act would incorporate the new English Companies Act, because the English revision went some way to alleviating the situation.⁹¹ In 1933, an editorial on what a balance sheet should convey referred to endeavours on this issue in the United Kingdom and the United States.⁹²

Researching and investigating how to provide direction for external financial reports were not the only ways the NZSA participated in the financial reporting regime in New Zealand. The Society had less difficulty carrying out the more usual tasks of a professional association when it contributed to changes in entity legislation such as when members of the NZSA were on the committee set up by the New Zealand Government to redraft the existing Companies Act in 1934. As Walker and Carnegie observed in their respective studies of the British and Australian accounting professions, the associations were acting on behalf of members and ensuring that the profession participated in legislative decision-making.⁹³

The British lead in New Zealand accounting and legislation was highlighted by an editorial in the *Journal* that discussed the United Kingdom's Companies Act 1929 and New Zealand's Companies Act 1933 showing similar trends in both countries in the legislation that provided more security for investors.⁹⁴ The NZSA ensured that members were well aware of the new legislation. In 1934, *The Accountants' Journal* printed a number of articles on the application of the revised Companies Act and B.T. O'Connell gave a model balance sheet using the newly

⁸⁹ 'London Notes,' *The Accountants' Journal*, 16:2 (1937), p.436 and W. Appleton's reply to correspondence from 'Public Accountant' in *The Accountants' Journal*, 16:3 (1937), p.457.

⁹⁰ 'London Letter,' *The Accountants' Journal*, 10:1 (1931), p.20.

⁹¹ F.H. Bass, '1931- A Retrospect,' *The Accountants' Journal*, 10:6 (1931), p.167.

⁹² W. Appleton, 'What a Balance-Sheet Should Convey,' *The Accountants' Journal*, 12:6 (1933), pp.162-164.

⁹³ Walker (1995 and 2004; Carnegie (1993).

⁹⁴ W. Appleton, 'The Swing of the Pendulum,' *The Accountants' Journal*, 12:8 (1934), p.226.

revised New Zealand Companies Act.⁹⁵ Bass's address to the Wellington Students' Society and R.L.A. Cresswell's address to the same group a year later were also on this subject.⁹⁶

Contributing to reviews of related legislation notwithstanding, the issue of research and financial reporting did not go away. Some members still pressed the Society to act to improve external financial reporting. They used the *Journal* to relay their concerns and the need for urgent action on standardising reports. J.S. Barton stressed the public interest element in such research, referring to an article from *The Commonwealth Journal of Accountancy* on 'Uniformity in Accountants' which emphasised the usefulness to investors and other interested parties of their being able to compare company financial accounts through uniformity in accounting terminology and classification of accounts. Barton also quoted C.B. Couchman's address to the American Institute of Accountants in 1934 where Couchman listed the advantages of uniform accounts as 'simplicity of operation; accurate information that is readily useable and comparable; individual companies know exactly what their financial situation is; violation of rules is detectable.' Couchman also outlined the disadvantages of having uniform accounts: '...the adoption of a rigid set of principles might debar continued exploration (of new principles) ...and (limit)...the discretion and judgement...needed for each company'. Barton stressed that any standardisation needed to be flexible, because '...accountancy is a progressive science...'⁹⁷ Three years earlier, at the Fourth International Congress on Accounting in London Lord Plender anticipated these difficulties when he stated that the

...application of the principles (of accountancy) involved was in many respects international...but...the laws of accounting differed so fundamentally in different countries that international uniformity in all respects was impracticable. Notwithstanding differing conditions, he thought the goal of attainment everywhere lay in clearly stating material facts in balance sheet and profit and loss accounts.⁹⁸

Later in the decade, Barton arranged meetings around New Zealand for NZSA members to study and discuss the New Zealand Companies Act 1933. He wanted representatives from the NZSA to meet with representatives from the New Zealand

⁹⁵ Report of Canterbury Branch meeting 27 April 1933, *The Accountants' Journal*, 11:11 (1933), p.344; B.T. O'Connell, 'The Presentation of the Balance Sheet in Connection with Proposed Company Law Amendment,' *The Accountants' Journal*, 12:8 (1934), pp.243-245.

⁹⁶ W. Appleton, 'The Companies Act 1933,' *The Accountants' Journal*, 12:11 (1934), pp.348-350 and Report from the Wellington Accountant Students' Society, *The Accountants' Journal*, 14:4 (1935), p.121.

⁹⁷ J.S. Barton, 'Uniformity in Accounts,' *The Accountants' Journal*, 14:8 (1936), pp.240-242.

⁹⁸ '4th International Congress on Accounting,' *The Accountants' Journal*, 12:3 (1933), p.89.

Law Society, Associated Banks and Associated Chambers of Commerce to examine company prospectuses and give advice to investors. Council was lukewarm on this idea, and thought that the New Zealand Stock Exchange was monitoring prospectuses adequately.⁹⁹ In 1937, an editorial in *The Accountants' Journal* commented, 'the weight of public opinion in recent years has induced directors to take investors more into their confidence...to form a more accurate opinion as to the ventures in which they have invested their capital'. The editor, Appleton, credited this in part to the efforts of the accounting profession in the United Kingdom and elsewhere. He went on to note that one reason directors gave for not doing this, namely, that competitors would have an advantage, had been discredited.¹⁰⁰ In 1938, Spence, in a Presidential address to the Wellington branch, reminded members that investors and other parties relied on accountants to ensure that balance sheets were informative. Another article the same year referred to work being done on this issue in the United States and the United Kingdom, urging Council and Branch committees to advocate standardisation of accounts and the education of the public to understand the accounts. The result, according to the article, would '...raise the standing of our practising members in the eye of the public.'¹⁰¹

Appleton continued to comment critically on the form and contents of the balance sheet. In 1939, he concluded an editorial:

Some members of the Profession have got away from the beaten track of convention by persuading their clients to summarize the financial position of companies in such a manner that even the uninitiated can readily follow the trend of the financial position. We feel that a great deal more can be done in this direction. After all there is an art in the presentation of lucid accounts and shareholders are just as much entitled to consideration in this connection as are the executive officers and directors of a company.¹⁰²

Concern about the usefulness of company external financial reports thus led to research in this area of accounting.¹⁰³

⁹⁹ Report of Executive, Investigation and Finance Committee Meeting 3 September 1937, *The Accountants' Journal*, 16:9 (1937), p.469.

¹⁰⁰ W. Appleton, 'More Informative Balance-Sheets,' *The Accountants' Journal*, 16:5 (1937), pp.522-523.

¹⁰¹ M.S. Spence, 'Presidential Address to the Wellington Branch,' *The Accountants' Journal*, 17:2 (1938), p.52 & 'AAA,' 'Relationships between Modern Developments in Accountancy and the General Standing of Members with the Public,' *The Accountants' Journal*, 17:3 (1938), pp.88-89.

¹⁰² W. Appleton, 'Form and Content of the Balance Sheet,' *The Accountants' Journal*, 17:7 (1939), p198.

¹⁰³ See comments in *The Accountants' Journal* including K.R.P. Parr, 'Let the Balance Sheet Tell the Truth,' 19:6 (1942), p.163; W. Appleton, 'Retrospect,' 20:6 (1942), p.126; and A.W. Christmas, 'The Interpretation and Criticism of Accounts,' 23:6 (1945), p.123.

By the end of the decade, the NZSA's response to internal and external pressure had produced some research into improving financial reporting and a recognition of the benefits to New Zealand society to do so but no defined or focused effort in national or theoretical study on the issue. The New Zealand accounting profession, unlike its counterparts overseas, continued to treat developing accounting knowledge as the responsibility of the individual rather than the association.

Conclusion

This chapter discussed the foundation of the NZSA in 1908 and its history during the 1920s and 1930s, looking in particular at the debate within the Society on whether the Society or individual members were responsible for research on accounting issues, including the standardisation of external financial accounts.

The debate NZSA members had in the first three decades of the twentieth century over whether their professional association should carry out research appeared to come from differing views of what the professional association was expected to do. That is, was research a responsibility of the association, and hence could be considered part of the wider professionalisation process, or a professional activity within the responsibilities of the individual accountant. Either way, as this chapter shows, research was seen as a professional activity and the professional association was critical to the success of the occupation maintaining its professional status when undertaking professional activities. Studies confirm this conclusion. Macdonald observed in his study of the English accounting profession that the creation of professional associations was the first step in the professionalisation process and several researchers, including Larson, emphasised the importance of the professional association to the success of the professionalisation process.¹⁰⁴

The NZSA's decision to leave research to individual members followed the lead of the British accounting profession which emphasised professional independence and individual judgement in accountant-client relationships. This meant that while the Society recognised its social responsibilities as a professional association to act in the public interest, encouraging and enabling members to deliver professional accounting services, reflection and research remained the responsibility of the autonomous individual accountant. The Imperial link between Britain and her colonies was a significant factor in how the New Zealand profession operated, seen

¹⁰⁴ Macdonald (1995); Larson (1977).

for example in the organisational structure of the NZSA and the numerous articles reprinted in the Society's journal from the United Kingdom and Australia.

The Council of the NZSA did not alter its decision to leave research to individual members, even after adverse economic events in the 1920s and 1930s brought increasing external pressure on the Society to provide direction in the preparation of entity accounts. This thesis suggests that the Council, however, was beginning to acknowledge the Society had some responsibility to provide guidance for it rejected the calls to establish research committees or employ a research officer on the grounds of lack of finance and skilled personnel rather than dismissing any obligation to provide direction. Council may have attributed its reluctance to establish research committees to a lack of resources but the failure to create a research committee may also be considered as fitting within the wider context of the professional association and the professionalisation process. Perkin and O'Day argued that the traditional role of a professional association was to encourage individual autonomy while it acted on behalf of members when negotiating with other groups such as the state.¹⁰⁵ As West noted, the accounting profession used legislative backing and restrictions on entry to the professional associations in its professionalisation process.¹⁰⁶

Research was not yet part of the accounting profession's professionalisation process. Larson's model of professional behaviour incorporates the professional association acting on behalf of members. While research and its related activities in developing accounting knowledge was the province of members, not the professional association, suggests that, in the framework of Larson's model, research was not a professional activity. However, continuing demands for leadership in areas such as financial reporting caused the accounting profession to change its attitude towards research. By the end of the 1930s, accounting associations in Australia and the United Kingdom had national research committees, studying the standardisation of external accounts among other accounting issues. The NZSA did not have a research committee but some branches had study groups exploring particular accounting issues. Although it was not evident at the time, the study groups were to become an intermediate step in the Society's path to establishing a national research committee.

¹⁰⁵ Perkin (1996); O'Day (2000).

¹⁰⁶ West (1996), p.95.

Chapter Six: Coordinating Research and the Accounting Practice and Procedure Committee 1938 to 1960

Introduction

This chapter is in two sections, describing the events and activities leading to the establishment of the APPC. From the end of the 1930s the NZSA's attitude towards national coordination of research changed, because of the increasing usefulness of groups researching accounting related issues and because several overseas accounting organisations, particularly in Britain, were issuing members with guidelines for good accounting practice.

During the 1940s, individual members continued to pressure the Council of the Society for national, coordinated research into accounting issues. As in the previous three decades, the general response from the Council was to leave research to individual members through participation in the thesis competitions or other activities, such as attending the five yearly National Conventions. The creation of study groups in the main branches at the end of the 1930s temporarily relieved the pressure on the Council to have national, coordinated research. These study groups explored a number of accounting issues, including the presentation of financial statements, and the recommendations on accounting principles issued by the Institute of Chartered Accountants in England and Wales (ICAEW), which the New Zealand Council adopted in 1946.

The usefulness of both the ICAEW recommendations and the branch study groups led the NZSA Council in 1950 to follow overseas trends and create a national research committee, the Accounting Practice and Procedure Committee (APPC/Committee). Council intended the committee to coordinate the findings of the international debate on accounting issues and provide guidance on best accounting practice for NZSA members, using the study groups to carry out necessary research. Although the APPC was unable to achieve these objectives, its creation along with the adoption of the ICAEW Recommendations were signs that the New Zealand accounting profession was beginning to accept regulating external financial reporting as a professional responsibility.

The Path to a National Research Committee

Factors within the NZSA and overseas led to the creation of the NZSA's first national research committee. Through the 1940s, several members of the NZSA, some of whom had held or were to hold office as President of the Society, continued to urge the Council to formally establish a research committee. By the end of the decade, they had succeeded, aided by the success of the study groups within the Society and decisions by British accounting organisations to issue selected accounting guidelines for external financial reporting.

Members calling for a research committee had different ideas of what that meant. Sometimes, the pressure from members was for the NZSA to collaborate with other organisations. W.B. Griffin in 1943 suggested that a subcommittee of the Council, which in effect would be a national committee, work with the Law Society and Associated Chambers of Commerce to study the issue of the published accounts of companies.¹ Nothing appears to have come from this suggestion, perhaps because too many otherwise interested members were fighting overseas at this time. Accounting was not a reserved occupation during World War II and many members of the Society left their practices to join the armed forces. Having many members overseas did not seem to affect the running of the Society. The Council, national committees and branch meetings continued, as did the calls for the Society to undertake research.

More often the internal call was for an NZSA research committee. In 1944, in his Presidential address, F.H. Bass stressed the importance of research and reiterated his argument for the Society to take the lead.² C.H. Perkins, a prominent Christchurch public accountant, was possibly the most vocal of the Presidents arguing for a national research committee during this time. In his Presidential address at the annual meeting in 1947, Perkins pressed the Council to create what he called an Auditing and Accounting Research Committee. To add weight to his argument, Perkins reminded the Council that other countries had similar committees.³

¹ Editorial, 'The Annual Meeting,' *The Accountants' Journal*, 22:9 (1944), pp.193 and 194. In 1931, a Council subcommittee had worked with the Associated Banks to study what should be disclosed in reports to banks. Source: Editorial, 'Co-operation with Bankers,' *The Accountants' Journal*, 10:3 (1931), p.68.

² Report of the Canterbury Branch, *The Accountants' Journal*, 22:12 (1944), p.276.

³ C.H. Perkins, 'The 1947 Annual General Meeting,' *The Accountants' Journal*, 25:9 (1947), p.259. Perkins cited Canada.

Of those members outside the Council arguing for a national committee, G.J.J. Feil remained the most persistent. For more than twenty years Feil was a prominent advocate for a greater level of research on accounting issues. He supported Bass's address at the Society's annual meeting in 1944 and urged the Council to take the lead in carrying out research for the profession.⁴ Feil did not confine his arguments to meetings. He disseminated his message as widely as possible, writing to *The Accountants' Journal* exhorting the Society to set up a research committee.⁵ As he had during the 1930s, Feil continued to maintain during the 1940s that the Society needed to do more than produce theses and he was active in encouraging research and study whenever possible.

Some Presidents during the 1940s, while agreeing that the Society should carry out research, remained convinced that this was a more suitable activity for branches. In 1942, E.D. Wilkinson in his address to the Canterbury branch agreed with the British accountant, Sir Josiah Stamp, that 'accountants were not doing research into the development of commerce.'⁶ Both men saw improving business practice in part as a responsibility of the accounting profession. Wilkinson urged branches to do research to produce 'new and improved methods of accounting and presentation...[as a] public duty.'⁷ F.H. Harris in an address to the Wellington Accountant Students' Society argued that '...standing still is to stagnate...' Harris reminded the students that the accounting profession would have a part to play in the rehabilitation of the nation after the war.⁸ For Harris, research was how the profession could develop new accounting practice and thus better fulfil its public duty. C.A. Smith agreed with Wilkinson. He was clear that it was better for the branches to carry out research, not the Council.⁹ The views of NZSA members like Wilkinson and Smith prevailed during the 1940s. Although three Presidents, Griffin, Bass and Perkins advocated national level research, Council did not create a national

⁴ 'Thirty Sixth Annual General Meeting: Discussion of the Address,' *The Accountants' Journal*, 23:9 (1945), p.201.

⁵ G.J.J. Feil, 'Correspondence,' *The Accountants' Journal*, 23:3 (1944), p.57.

⁶ Report of the Canterbury Branch, 'Visit of President, Mr E.D. Wilkinson,' *The Accountants' Journal*, 21:2 (1942), p.38.

⁷ 'Resumé of Addresses to Branches by the President E.D. Wilkinson, 'The Accountant's Part in Post-War Reconstruction,' *The Accountants' Journal*, 21:6 (1943), p.137 and F.G. Wiseman, 'Costs in Financial Accounting: Presidential Address at the Forty-First Annual General Meeting of the Association of Certified and Corporate Accountants, London,' *The Accountants' Journal*, 25:3 (1946), p.85.

⁸ F.H. Harris, 'The Accountancy Profession,' *The Accountants' Journal*, 22:6 (1944), p.141.

⁹ C.A. Smith, 'Presidential Address,' *The Accountants' Journal*, 26:6 (1948), p.162.

committee. Instead, the Council continued to promote the thesis competitions, National Conventions and, later, the study groups.

Theses and conventions were two very different forms of research, giving NZSA members opportunities to either do individual research or participate in wider sharing of knowledge. The thesis competitions provided a means for individual NZSA members to explore an accounting issue, usually the financial reports of an industry, such as dairying. Council considered the thesis competitions a suitable form of research and the competitions produced theses that became standard works in New Zealand.¹⁰ In 1943, when the Incorporated Society of Accountants and Auditors in England asked for New Zealand research publications, the Council sent copies of the theses from earlier competitions.¹¹ Later in 1943, when addressing the Wellington Accountant Students' Society, Harris told the students that one of the things the Society did for its members was to 'encourage research in the form of thesis competitions.'¹²

By 1947, the thesis competition was not producing much research. In that year, for example, there were only three entries for a thesis on the timber industry.¹³ The 1949 competition, on the footwear industry, had a worse response, producing only two entries.¹⁴ This was the last thesis competition until the Council briefly revived the competition at the end of the 1950s. Graham observed, 'for various reasons the competition was not an unqualified success.'¹⁵ Although Graham did not specify why, the thesis competition may have been disrupted by World War II and it is possible that the falling number of individual members willing and able to study an accounting issue in depth may have contributed to the Council ultimately accepting the idea of a national research committee. But at this time the Council maintained a preference for anyone other than the Council itself to conduct research and first looked outside the Society for help. At the NZSA annual meeting in 1947, Council decided to invite the Commerce Faculties in the universities to give a series of lectures endowed by the NZSA. Nothing furthered happened, and the suggestion died

¹⁰ Report of meeting of the Council 24 June 1937, *The Accountants' Journal*, 16:1 (1937), p.410.

¹¹ Report of meeting of the Executive Committee 14 April 1943, *The Accountants' Journal*, 21:11 (1943), p.253.

¹² F.H. Harris, 'The Accountancy Profession,' *The Accountants' Journal*, 22:6 (1944), p.139.

¹³ C.H. Perkins, 'The 1947 Annual General Meeting,' *The Accountants' Journal*, 25:9 (1947), p.250.

¹⁴ Report of meeting of the Council 2 and 3 November 1949, *The Accountants' Journal*, 28:4 (1949), p.148.

¹⁵ Graham (1960), p.97.

in the same way as the idea earlier in the century when the NZSA asked the Economics faculties in the New Zealand University Colleges to collect data accountants could use in research.¹⁶

National Conventions involved more members than the thesis competition, enabling NZSA members to exchange ideas and discuss issues. In his Presidential address at the annual meeting of the Society in 1943, E.D. Wilkinson noted that in gathering at conventions, members could share knowledge. He added that senior members could use their experience to help others in the Society.¹⁷ Wilkinson described the conventions as research but it is debatable whether the conventions, held every five years from the mid 1920s, fulfilled the research demands of members like Feil. Although invited speakers presented papers and others gave prepared comments on the papers, debate was brief and often limited to discussion outside the presentations.

The weekend congress was a new activity in the NZSA in the 1940s. In terms of members studying and discussing accounting issues, the congress was midway between the thesis and the national convention. The weekend congress was a branch activity where interested branch members came together to debate and learn about particular issues. Possibly, the weekend congress could more properly be called professional development, but a number of branches considered holding weekend congresses to allow members to discuss accounting issues formally and in depth.¹⁸ In some respects the weekend congress was a variation on the most influential of the research activities of the NZSA during the 1940s: the study group.

Study groups fostered and promoted debates, discussions and other forms of public speaking. The groups organised technical lectures and discussions, promoting and encouraging technical research and post graduate work.¹⁹ In 1938, when the Auckland branch first proposed study groups, seventy members of the branch expressed interest in taking part. With so many members keen to participate, the Auckland branch created a Working Committee to oversee six subgroups.²⁰ The

¹⁶ See the previous chapter.

¹⁷ E.D. Wilkinson, 'Thirty Fourth Annual General Meeting: The Presidential Address,' *The Accountants' Journal*, 21:9 (1943), p.203.

¹⁸ Report of the Otago Branch, *The Accountants' Journal*, 27:10 (1949), p.247.

¹⁹ Report of the Auckland Branch, *The Accountants' Journal*, 16:12 (1938), p.770 and *The Accountants' Journal*, 23:12 (1945), pp.277 and 278.

²⁰ The Working Committee comprised H.E. Strickett, D.H. Steen, A.D. Thomson, J.H. Atkinson and H.G. Robinson.

topics studied included factory cost accounting, compilation of simple yet efficient sets of books of account for professional men, public finance and taxation, hire purchase and time payment, valuing shares and commercial goodwill and Stock Exchange practice and accounts. The topics showed a pragmatic bias, suggesting that the Auckland accountants were concentrating on improving accounting practices and procedures. The groups hoped to meet regularly and share results. The Auckland branch subsidised the groups and members participating paid a small subscription.²¹ The study groups were a branch activity even if the issues were major topics and they took a while to produce results. After a year, the Auckland study groups reported that they had met regularly but did not yet have any definitive results to share with other members.²²

The Accountants' Journal encouraged the development of study groups, as did the Council.²³ M.S. Spence, in his Presidential address at the 1939 annual meeting of the NZSA, praised the Auckland branch for its study groups and expressed the hope that other branches would follow. Two branches established study groups. Canterbury considered setting up similar study groups because they would '...be of sterling service and publicity to the profession' as well as benefit members.²⁴ The Canterbury branch created a special committee to oversee the establishment of eight study groups to look at a number of issues. The Otago branch did the same and aimed to establish five study groups.²⁵ Otago eventually only set up three groups to look at liquidation, share values and costing.²⁶

Members participating in a study group benefited from discussing accounting issues with others and were therefore in a position to improve their practice by using the latest information available from overseas as well as obtaining useful techniques and ideas from local colleagues. The groups made it possible for interested members to focus on particular areas of accounting and the topics covered by the study groups were a good indication of the issues that interested members at the time.

The Council continued to encourage the study groups. W.R. Brown, in his Presidential address at the annual meeting in 1940, congratulated the three branches

²¹ Report of the Auckland Branch, *The Accountants' Journal*, 16:12 (1938), p.770.

²² Report of the Auckland Branch, *The Accountants' Journal*, 17:12 (1939), p.386.

²³ Editorial, 'Post-Graduate Training,' *The Accountants' Journal*, 16:12 (1938), p.750.

²⁴ Report of the Canterbury Branch, *The Accountants' Journal*, 17:1 (1938), p.21.

²⁵ Report of the Canterbury Branch, *The Accountants' Journal*, 17:12 (1939), pp.387 and 388.

²⁶ Report of the Otago Branch, *The Accountants' Journal*, 18:1 (1939), p.25.

and urged both older and younger members to participate in them.²⁷ In 1940, H.E. Strickett suggested that the study groups exchange ideas at the coming Convention. When the study group members from Auckland, Canterbury and Otago met at the Convention, members from Wellington and Invercargill, who were interested in what the study groups were doing, also attended. At the Convention meeting, study group members did not confine themselves to examining accounting issues. The groups looked at their structure and discussed how to finance their meetings and research and they persuaded the Council to subsidise their printing costs.²⁸ Costs, it seemed, remained a significant factor in determining what the Society did. Subsidising study group printing costs was a cheaper alternative to financing a national research committee. But the Council could see the worth of encouraging the groups and it established a subcommittee to help the branch committees to coordinate the groups. This move brought the Council closer to the concept of a national research committee. Unfortunately, the subcommittee did not have much to do because World War II severely disrupted study group activities.

With many members of the NZSA and accounting students overseas on military duty, branch activities such as the study groups at times fell into abeyance. The Canterbury group looking at presentation of accounts, for example, did not meet in 1940 and in Otago, of the study groups there, only the cost accounting group was still going in 1940.²⁹ Wilkinson, speaking at a Canterbury branch meeting in 1943, called for the revival of study groups and post-student research to ensure that the accounting profession became a 'greater power in the community...'³⁰ After World War II, many branches again established their study groups.³¹ The Otago branch created three new study groups, this time looking at taxation, auditing practice and procedure and cost accounting. Again, proponents of the groups emphasised the professional advantages of research. In Wellington, members were exhorted to 'become actively interested in some branch of research, because the result must necessarily benefit the profession as a whole.'³² The study groups in these branches of

²⁷ W.R. Brown, 'The Presidential Address: Thirty First Annual Meeting,' *The Accountants' Journal*, 18:9 (1940), p.277.

²⁸ Report of the Otago Branch, *The Accountants' Journal*, 18:9 (1940), p.288.

²⁹ Report of the Canterbury Branch, *The Accountants' Journal*, 18:9 (1940), pp.343 and 344.

³⁰ Report of the Canterbury Branch, *The Accountants' Journal*, 21:10 (1943), p.229.

³¹ Report of the Otago Branch, *The Accountants' Journal*, 26:1 (1947), p.32.

³² Report of the Annual General Meeting, Wellington Branch, *The Accountants' Journal*, 24:10 (1946), p.261.

the Society were in many respects relatively informal. However, some groups managed to produce research findings that were published in *The Accountants' Journal*.³³

The *Journal* also printed international research developments. The Council was keen for members to access the results of any accounting research, especially that related to financial reporting, whether from the groups or from overseas. There was a growing demand worldwide for an improvement in the presentation of financial reports and the accounting profession was under pressure to improve the quality of these reports.³⁴ *The Accountants' Journal* obliged. Throughout the 1940s, the *Journal* published articles and wrote editorials on financial reporting.³⁵ One particularly influential accountant was the Australian, Sir Alexander Fitzgerald who was to become well known to NZSA members when he visited New Zealand in the 1950s. Fitzgerald wrote of the need for clear financial reports, summarising an address F.R.M. de Paula delivered in England that criticised the profession on its low level of research.³⁶ De Paula claimed that a weakness of the profession, and an indication of its not accepting responsibility, was its lack of uniformity of approach to the presentation of financial accounts.³⁷ An article from the Canadian Chartered Accountants, printed in *The Accountants' Journal*, encouraged accountants to lead the move to improve company financial statements.³⁸ However, any improvement in financial reporting required nationwide acceptance by the profession of a common approach to presenting financial reports.³⁹ For this the NZSA preferred to look to the profession in the United Kingdom and what was happening in British financial reporting.

Zeff referred to New Zealand's affinity with the British system of accounting as 'a sentimental attachment to the Old Country...acknowledging the brute force of British company law.'⁴⁰ New Zealand company legislation followed British law

³³ See, for example, Report of the Otago Branch, *The Accountants' Journal*, 25:3 (1946), p.77.

³⁴ Editorial, 'Towards Better Published Accounts,' *The Accountants' Journal*, 24:10 (1946), p.242.

³⁵ Editorial, 'Retrospect,' *The Accountants' Journal*, 20:6 (1942), p.126 and Editorial, 'What the investor expects of the auditor,' *The Accountants' Journal*, 20:10 (1942), p.221.

³⁶ A.A. Fitzgerald, 'English and American Attitudes towards Accounting,' *The Accountants' Journal*, 21:1 (1942), p.5 and 'Clarity in Published Profit and Loss Statements,' *The Accountants' Journal*, 21:3 (1942), p.69.

³⁷ F.R.M. de Paula, 'The Future of the Accountancy Profession,' *The Accountants' Journal*, 23:8 (1945), pp.186-188.

³⁸ W.A. McKague, 'Old Figures in New Forms,' *The Accountants' Journal*, 25:3 (1946), p.65.

³⁹ 'Scrutator,' 'Annual Accounts Discussed,' *The Accountants' Journal*, 25:3 (1946), p.135.

⁴⁰ Zeff (1979), p.13.

closely and New Zealand accountants worked very much in the same way as their British counterparts, to the extent that, as mentioned previously, the NZSA modeled its structure on the structure of British accounting organisations. Consequently, suggestions from the United Kingdom for improving practice in financial reporting had a better reception in New Zealand than did advances in the United States.⁴¹ The NZSA Council became very interested in one British development. From 1942, a technical committee of the Institute of Chartered Accountants of England and Wales (ICAEW) issued a series of suggestions of best practice, called *Recommendations on Accounting Principles*. *The Accountants' Journal* published these recommendations and the NZSA Council asked the Auckland branch to submit a report on the suitability of the recommendations in New Zealand.⁴² Auckland proposed that the Council should itself issue suggestions for best practice to NZSA members along the lines of the ICAEW recommendations. At its October 1945 meeting, the Council resolved to publish the ICAEW recommendations, with minor alterations to suit New Zealand conditions.⁴³ Gradually the NZSA was moving away from member autonomy in accounting practice and toward providing guidelines for member use. The Society was not yet carrying out its own research but it was now about to benefit from the research outcomes of the ICAEW.

The ICAEW recommendations were a major topic at the Society's post war Victory Convention in February 1946. Two keynote speakers, A.W. Christmas and G.L. Allard, delivered comprehensive outlines of developments in financial reporting overseas, showing considerable research and placing the ICAEW recommendations in the context of New Zealand accounting. Both were active members of their branches and it is probable that they participated in branch study groups and received ideas and support from others. Christmas had addressed the Auckland branch's Discussion Group before the Convention, previewing his convention paper with a summary of research in both the United Kingdom and the United States and he was among those members urging the NZSA to review the financial reporting regime in New Zealand.⁴⁴

⁴¹ ICAEW, 'Modern Practice in Accounts,' *The Accountants' Journal*, 23:4 (1944), p.88 gives a summary of the accounting principles proposed by ICAEW. See also 'Accounting Principles-Holding Companies,' *The Accountants' Journal*, 23:7 (1944), p.151 for details on the seventh recommendation issued by ICAEW on Holding Companies.

⁴² Report of meeting of the Council 20 June 1945, *The Accountants' Journal*, 23:12 (1945), p.277.

⁴³ Report of meeting of the Council, *The Accountants' Journal*, 24:4 (1945), p.94.

⁴⁴ Editorial, 'Towards Better Published Accounts,' *The Accountants' Journal*, 24:10 (1946), pp.242 and 243.

In May 1946, the NZSA published seven ICAEW recommendations on Accounting Principles. In the Foreword to the publication, Perkins encouraged members to follow the recommendations in their accounting practice and urged members to use them in conjunction with the papers Christmas and Allard had delivered at the Victory Convention. ICAEW had issued ten recommendations, but the NZSA Council did not use three because they were not applicable to New Zealand. In the foreword to the recommendations the President, Perkins, told members that ICAEW 'Recommendation No.2 [War Damage Contributions, Premiums and Claims] was not applicable to New Zealand conditions and Recommendation No.1 [Tax Reserve Certificate] is not yet of sufficient importance, under local conditions, to require consideration. Recommendation No.4 [The Treatment of Accounts of Income Tax deductible from dividends payable and annual charges] is definitely not applicable on account of the difference in the incidence of taxation in New Zealand.'⁴⁵

The Council also made minor modifications to the seven recommendations to ensure they were consistent with New Zealand law and practice. The Council added a note to ICAEW Recommendation 8 Form of Balance Sheet and Profit and Loss Account that 'New Zealand practice suggests that taxation provision should be made through the P. & L. Appropriation Account'; the note added to ICAEW Recommendation 9 Depreciation of Fixed Assets referred to variations from English practice as per the requirements of the New Zealand Commissioner of Taxes; the note to ICAEW Recommendation 10 Valuation of Stock in Trade reminded NZSA members to take into account Section 16 of the New Zealand Land and Income Tax Amendment Act 1939.

The minimal alterations to the ICAEW recommendations indicated that the NZSA Council believed that what the English accountants were doing was what New Zealand accountants could also be doing. Because New Zealand Company legislation was similar to the English legislation, New Zealand accounting practice was close to English accounting practice. New Zealand was not the only country to adopt the ICAEW recommendations as best practice.⁴⁶ Australia adopted the same seven recommendations as New Zealand, which was understandable, given the background

⁴⁵ Perkins, Foreword to New Zealand Society of Accountants, *Recommendations on Accounting Principles*, (Wellington, 1946).

⁴⁶ Editorial, 'For Urgent Attention,' *The Accountants' Journal*, 24:11 (1946), p.273.

in accounting practice that Australia shared with New Zealand and the United Kingdom and the continuing influence of Britain in many areas of both countries' societies and economies.⁴⁷ The accounting profession in the United Kingdom approved of the New Zealand and Australian decisions and the *Journal*, with Council approval, continued to publish new ICAEW recommendations on accounting principles for NZSA members to consider and discuss.⁴⁸ Communication between the profession in the United Kingdom, Australia and New Zealand was strong and frequent, facilitating the sharing of ideas and research. In September 1946, for example, *The Accountants' Journal* reprinted an article from the English *Accountant* praising the NZSA for the issues it had raised and discussed in the February Victory Convention.

The ICAEW recommendations were well received by NZSA members and branches were keen to discuss them. The Wellington Branch, for example, reported a large attendance at the meeting it held.⁴⁹ The ICAEW recommendations helped the New Zealand accounting profession achieve some method and consistency in external financial reporting and showed that research could produce practical improvements in accounting methods. NZSA members also had the opportunity to study published accounts in the light of the recommendations. *The Accountants' Journal* had a section that each month critically examined and commented on the appropriateness of the financial reports of selected New Zealand entities.⁵⁰

In addition to the journal's articles, the study groups continued to meet and individual NZSA members, such as G.A. Chapman and W.G. Rodger, contributed to research on financial reporting. Chapman published an article on the presentation of accounts in which he discussed columnar and narrative layouts using the accounts of the Victoria University College Students' Association, concluding that clarity was vital.⁵¹ Chapman said that the accountant should always keep in mind 'will the reader understand this?' For otherwise, accounting would become a habit rather than an art.⁵² The branches encouraged research. In 1948, the Canterbury study group released the

⁴⁷ 'Scrutator,' 'On Published Accounts,' *The Accountants' Journal*, 25:7 (1947), p.199.

⁴⁸ 'Scrutator,' 'Annual Accounts Discussed,' *The Accountants' Journal*, 25:5 (1946), p.135; ICAEW, 'New Recommendation on Accounting Principles,' *The Accountants' Journal*, 27:7 (1949), p.165.

⁴⁹ Report of the Wellington Branch, *The Accountants' Journal*, 24:12 (1946), p.327.

⁵⁰ Editorial, 'Current Balance Sheets,' *The Accountants' Journal*, 25:3 (1946), p.63. Zeff noted that these comments could be quite pungent. Zeff (1979), p.9.

⁵¹ G.A. Chapman, 'Presentation of Accounts- A Habit or an Art?' *The Accountants' Journal*, 25:12 (1947), pp.381-383.

⁵² Ibid.

results of its exploration of ‘the interpretation of accounts.’⁵³ In the same year, the Wellington branch, through Rodger as the Chair of the research groups, published the results of the groups’ discussion of the implications for accounting of the new English Companies Act.⁵⁴ Also in 1948, the Auckland branch reported on its Weekend Congress where Christmas spoke on how the English Companies Act affected presentation of accounts.⁵⁵

Later in 1948, Rodger published an article on accounting principles in *The Accountants’ Journal*. This was a significant article because, as the *Journal’s* editor commented at the beginning of the article,

[i]n recent years much thought has been given overseas to ‘accounting principles’ but we believe this article is the first New Zealand approach to the subject. It is a stimulating contribution by one of our keenest students of accountancy, and, though its views may not all be accepted without question, this article undoubtedly opens a new field of accounting thought.⁵⁶

Rodger’s article provided a clear summary of the steps taken by the accounting profession in the United States to develop Generally Accepted Accounting Principles (GAAP) and came in the middle of continuing efforts by individual members to persuade the Council to establish a national research committee.

Although in 1947 Perkins argued unsuccessfully for a national committee ‘...which would investigate matters of...accounting principles and practice and submit statements of these procedures to the Council for adoption or rejection,’⁵⁷ the Council was now part way to having a national committee, employing some study groups to collate research findings from other groups. In just ten years, the study groups had gone from being an activity confined to some NZSA branches to being national coordinators of research results. The study groups thus became an intermediate step in the NZSA’s path to a national research committee. In 1946, the Council asked the Wellington branch to coordinate the work of the study groups around the country looking at auditing practices and report to Council.

The Council was now more active in collecting and disseminating research results. In 1948, at Perkins’ suggestion, Council asked NZSA members, to submit

⁵³ A Study Group of the Canterbury Branch of the Society, ‘The Interpretation of Accounts,’ *The Accountants’ Journal*, 26:3 (1947), p.34 and *The Accountants’ Journal*, 26:4 (1947), p.88.

⁵⁴ W.G. Rodger, ‘New Zealand Company Law Amendment,’ *The Accountants’ Journal*, 26:7 (1948), p.194.

⁵⁵ ‘Auckland Branch’s Weekend Congress,’ *The Accountants’ Journal*, 26:7 (1948), p.199. Christmas’ address is reproduced on pp.201-206 of this issue.

⁵⁶ W.G. Rodger, ‘A Matter of Principle,’ *The Accountants’ Journal*, 26:10 (1948), p.226.

⁵⁷ C.H. Perkins, ‘1947 Annual Meeting,’ *The Accountants’ Journal*, 25:9 (1947), p.259.

results of any research they had done.⁵⁸ There was no response to this request, so Council decided to have the *Journal* Advisory Committee ask particular members to work on selected issues.⁵⁹ Perkins did not rest with this resolution, nor was he satisfied with the study groups coordinating branch research. At a Council meeting in 1949, Perkins again raised the issue of a national committee. This time the Council agreed that its Executive Committee would coordinate research developments overseas.⁶⁰ Within a few months, the Council's Investigation and Finance Committee was in charge, but its new task was short lived.⁶¹

In ten years the NZSA had moved from encouraging individual research and publication in the journal to using the national office as a conduit for sharing research results with members. The NZSA was also now following overseas trends and releasing guidelines for members to follow in their accounting practice. In 1950 the Society was about to move further in the direction of the profession overseas.

The Accounting Practice and Procedure Committee

In a report written for the Council at the beginning of 1950, Perkins explained why the NZSA needed a national research committee, again emphasising the accounting organisations overseas that had national research committees, citing in particular the ICAEW's technical committee that produced the recommendations on accounting principles.⁶² Most western countries had specialised committees carrying out research. In the United Kingdom, both the Institute of Chartered Accountants in England and Wales (ICAEW) and the Society of Incorporated Accountants and Auditors (SIAA) had research committees, although the SIAA focused on more academic accounting issues than did the ICAEW. In 1948, the SIAA established the *Accounting Research* journal and, in 1952, created the Stamp-Martin Chair of

⁵⁸ Editorial, 'Encouraging Research,' *The Accountants' Journal*, 26:9 (1948), p.257; Report of meeting of the Council 20 February, *The Accountants' Journal*, 26:9 (1948), p.293.

⁵⁹ Report of meeting of the Council 14 October 1948, *The Accountants' Journal*, 27:5 (1948), p.127.

⁶⁰ Report of meeting of the Council 29 and 30 June 1949, *The Accountants' Journal*, 28:1 (1949), p.19 and R.D. Brown, 'President's Address to Branches of the Society,' *The Accountants' Journal* 28:4 (1949), p.96.

⁶¹ R.D. Brown, 'President's Address to Branches of the Society,' *The Accountants' Journal*, 28:4 (1949), p.96. Council appointed a full time secretary with the aim of that person undertaking the necessary research.

⁶² Perkins' report was reproduced in H.E. Strickett, 'Accounting Research.' Source: Zeff (1979), p.16.

Accounting at the Incorporated Accountants' Hall.⁶³ However, the SIAA discontinued the Chair and *Accounting Research* after 1958 when it merged with the ICAEW. In the United States, the American Institute of Accountants' Committee on Accounting Procedure (CAP) continued to produce accounting research bulletins that illustrated accepted American practice.⁶⁴ The American Accounting Association (AAA), whose members were academics or employed in commerce rather than public practice, had a research committee, the Committee on Accounting Concepts and Standards, which revised the AAA's 1936 Accounting and Reporting Standards for Corporate Financial Statements. The Canadian Institute of Chartered Accountants' (CICA) Committee on Accounting and Auditing Research produced bulletins similar to those of CAP in the United States.⁶⁵

In Australia, there were two main accounting organisations, the Institute of Chartered Accountants in Australia (ICAA) and the Commonwealth Institute of Accountants. The Institute of Chartered Accountants had a Research Coordination Committee, established in 1948, which was replaced by the Research and Service Foundation in 1954. This committee, and its successor committee, guided and collated the results of research undertaken by the State Councils of the Institute. At the same time, the Commonwealth Institute of Accountants had an Accounting Research Committee that coordinated State research committees. In 1950, in what some suggest was a prelude to the 1952 creation of the Australian Society of Accountants, the organisations formed the Joint Committee of Accountancy Bodies in Australia to coordinate accounting research in Australia.⁶⁶

With these precedents, Perkins convinced the Council to accept his report and at the meeting in February 1950, the Council resolved to establish the NZSA's first research committee, the Accounting Practice and Procedure Committee (APPC).⁶⁷ Perkins thought such a committee should be composed of Councillors and non-Councillors meeting regularly and reporting to Council. The Council agreed and

⁶³ See, for example, A.A. Fitzgerald, 'The Role of Professional Societies in the Development of Accounting Theory,' *The Accountants' Journal*, 35:7 (1957), pp.243-249; S. Bray was the first and only holder of this Chair.

⁶⁴ The American Institute of Accountants was renamed the American Institute of Certified Public Accountants (AICPA) in 1957.

⁶⁵ Storey and Storey (1998). Storey and Storey provide a summary of the history of the early development of accounting standards in America.

⁶⁶ Zeff (1973). Although the Australian Institute preferred to remain independent of the Joint Committee, it did recognise the Committee.

⁶⁷ Report of Council Meeting 23 February 1950, *The Accountants' Journal*, 28:9 (1950), p.271.

decided that Councillors would be the majority of the Committee. The APPC would comprise the President, five Councillors and five non-Councillors. The President was to be the Chair of the Committee and therefore a convenor was necessary. The Council recognised the importance of the committee by deciding that it would appoint the convenor of the Committee, rather than have the Committee make the appointment.

Considering the years of pressure before the NZSA Council decided to create the APPC it is somewhat surprising that there was such a strong interest among Councillors to be on APPC that the Council had to conduct a ballot. The five Councillors chosen were W.R. Chapman, A.W. Christmas, R.G. Compton, D.A.F. Crombie and H.E. Strickett. By the time the committee actually met in April 1950, the Council had altered the composition of the Committee to eleven members, six of whom were non-Councillors. Either the Council was confident that the non-Council members of APPC had the experience and knowledge to achieve what the Council wanted, or Council recognised that Council members were too busy to undertake research work. Strickett, who was Vice President of the NZSA at the time, became Convenor. There was one change in Councillors before the APPC first met. Christmas stood down from the Committee and A.E.J. Anderson replaced him. The first non-Council members were N.B. Fippard, F.H. Harris, C.H. Perkins, W.G. Rodger, D.H. Steen and E.D. Wilkinson.⁶⁸ These members had been prominent in advocating for a research committee and some, like Rodger, were already carrying out research. Both Perkins and Harris were former Councillors.

A notable feature of the composition of the APPC was that all members, bar one, were public accountants.⁶⁹ At this time, only just over a quarter of all NZSA members were public accountants, suggesting that the NZSA Council saw the APPC focussing on improving aspects of external financial reporting. Indeed, Perkins envisaged a committee that would make pronouncements for the guidance of members, based on both New Zealand and overseas research. He also thought the committee could carry out an established function of professional associations and represent the Society, giving evidence at government reviews and enquiries on issues of interest to the profession.⁷⁰ This latter aim was to prove to be the major focus of the

⁶⁸ Report of Council meeting 28 February 1950, *The Accountants' Journal*, 28:9 (1950), p.272

⁶⁹ Appendix F.

⁷⁰ Report of Council meeting 28 February 1950, *The Accountants' Journal*, 28:9 (1950), p.271.

committee during its existence, to the detriment of other goals.

The disadvantage in having public accountants as the majority of members of the Committee was that they had commitments to their accounting firms and the Society and could not devote the time needed to the APPC agenda. Recognising this, the Council restructured the APPC in 1953 so that the Committee had fewer Councillors and more non-Councillors.⁷¹ The number of Councillors on the APPC slowly decreased. By the end of the decade, only two of the twelve members of the Committee were Councillors, but the Committee was still reporting directly to the Council. In 1956, the Council again restructured the APPC. There was now an Executive Committee composed of the Chairman, Vice Chairman and three APPC members, 'to expedite the work of the Committee.'⁷²

The APPC's tasks were similar to the research committees that overseas professional accounting associations had established. During the 1950s, the research committees in British and American accounting organisations produced guides for accounting procedure from accepted good accounting practices rather than from fundamental principles. The American research committee, CAP, for example, issued 51 Accounting Research Bulletins (ARB) between 1939 and 1959, most before 1950, covering a number of issues in accounting practice such as depreciation, valuation of shares, taxation and presentation of financial accounts. The Australian Society of Accountants (ASA) focused on producing bulletins and research studies on a number of areas. In 1953, the ASA's Research Committee released its report on accounting terminology. In 1956, the New South Wales Research Committee of the Society produced the first Statement on Accounting Practice, although not everyone in Australia saw this statement as research. Fitzgerald, for example, criticised the statement for being too descriptive. The Australian Society's next statement, in 1958, on hire purchase transactions, was more technical.

The Institute of Chartered Accountants in Australia, on the other hand, as did the NZSA, encouraged its members to follow the seven recommendations on accounting practice that both the New Zealand Society and Australian Institute had adopted from the ICAEW recommendations in the 1940s. Early in the 1950s, the Australian Institute's Research Coordination Committee produced a report on another ICAEW recommendation, Accountants' Reports for Prospectuses, which Zeff noted

⁷¹ Report of Council meeting 14 October 1953, *The Accountants' Journal*, 32:5 (1953), p.163.

⁷² Report of APPC meeting 30 November 1956, *The Accountants' Journal*, 35:10 (1957), p.365.

was in effect the first exposure draft issued in Australia.⁷³

With the APPC, the NZSA was now in a position to act in a similar way. At its first meeting in July 1950, Strickett, as convenor of the APPC, put forward ten topics for the committee to consider. In order, they were Companies Act revision, taxation reform, revision of the recommendations on accounting principles, an annual research lecture, standards of auditing practice, accounting and price level changes, accounting standards and terminology, solicitors' trust accounts, pay as you earn tax and developments in cost accounting. The Committee resolved to undertake immediate research in practical issues, particularly the revision of the Companies Act and taxation reform. The Committee placed the other topics under the heading of 'true research.'⁷⁴ 'True research' was not defined in the Committee's report but appeared to include topics, such as accounting for price level changes, that Committee members viewed as requiring a more theoretical and longer term study. At the same meeting, the Committee appointed a subcommittee of Perkins and Rodger to consider the topics listed under 'true research' and report on possible subjects, priorities and approaches. In the meantime, the Committee formed another five subcommittees to look at parts of the Companies Act, suggesting that an important factor that helped the Council agree to create the APPC was the knowledge that the Society needed to comment on the revision of the New Zealand Companies Act. The British Government had recently revised the United Kingdom Companies Act and the New Zealand Government was intending to revise the New Zealand Act. The Council needed a committee that could coordinate the Society's submission to government on recommended changes to the Act.

The emphasis on tackling the practical issues of company law and taxation revision may also in part explain the title of the Committee. 'Research' was not in the title, even though Perkins and others wanted a national research committee. Zeff suggested that the NZSA's avoidance of the term 'research' followed a similar action by the ICAEW, whose research committee did not have 'research' in its title for its first few years, and that may have been a response to an antipathy by some NZSA

⁷³ Zeff (1973), footnote 17 p.26. An exposure draft is a preliminary statement, widely circulated for comments and submissions before being redrafted into a final statement.

⁷⁴ Report of APPC meeting 26 July 1950, *The Accountants' Journal*, 29:2 (1950), p.63. 'True research' was not defined in the report but appears to infer research on topics such as accounting for price level changes as more theoretical than practical.

members to attempts to give a theoretical basis to accounting.⁷⁵ Although there does not appear to be any direct evidence of NZSA members disliking the notion of accounting theory, the NZSA had a similar system of operation to the British accounting organisation.

Perkins and Rodger echoed this avoidance of the term 'research' in the report they presented at the August 1950 meeting of the APPC. In their suggested list of projects for the APPC they emphasised a desire to concentrate on practical issues.⁷⁶ Their list included accounting reports, company reports, accounting concepts and standards, auditing standards and auditing principles, audit working papers, recommendations on accounting principles, requirements of the new Companies Act and public accounts. The APPC immediately began allocating personnel to these topics. The Secretary, Graham, was to collect accounting and company reports and work on them with Perkins and Rodger. Anderson, Rodger and Graham were to liaise with the Wellington Branch of the Society to continue work on public accounts. The Auckland Branch already had a committee looking at the implications of the recently revised United Kingdom Companies Act and Gilkison was co-opted to coordinate work on auditing standards and working papers.⁷⁷

The APPC may have started its deliberations with the good intentions of studying a number of accounting issues, but the revision of the Companies Act came to dominate its work.⁷⁸ This was despite as early as 1952 Strickett was reporting that the Committee was 'now giving serious consideration to practical accounting problems with a view to issuing recommendations or information for the guidance of members.'⁷⁹ For much of the decade, the Companies Act was the main agenda item for the Committee. The APPC also established regional committees in the main centres to support the five subcommittees. The regional committees were to clarify sections of the proposed revision, define them, discuss the general implications of the proposals and make recommendations for the APPC to consider when it was preparing its submission to the Government. Strickett was to be the convenor of the

⁷⁵ Zeff (1979), p.17.

⁷⁶ Report of APPC meeting 30 August 1950, *The Accountants' Journal*, 29:3 (1950), p.94.

⁷⁷ Ibid.

⁷⁸ Revision of the Companies Act being the second last item in Perkins and Rodger's list suggests they considered this a low priority area for research. However, this became the issue that dominated APPC proceedings.

⁷⁹ H.E. Strickett, 'President's Address to the Annual Meeting,' *The Accountants' Journal*, 30:9 (1952), p.256.

Auckland committee, R.A. Davison convenor of the Wellington committee and Gilkison the convenor of the Dunedin committee. There was no committee in Canterbury but G.B. Battersby, another prominent Christchurch public accountant and part time lecturer at the Canterbury University College, invited interested members to contact him. The APPC also created an executive committee, which was to oversee the newly established regional committees.⁸⁰

The Companies Act did not totally dominate the APPC's work. The agenda for the APPC's meeting in May 1955, for example, included consideration of auditors' duty to verify stock, a bibliography of magazine articles, audit questionnaires and preparation of the public accountants' handbook.⁸¹ In this year the Council was apparently still hopeful that the APPC could do more for members as members were informed that the APPC would concentrate on researching practical problems and providing guidance by preparing statements on accounting standards. The NZSA was moving beyond representing members to helping members improve accounting practice. In producing guidelines and not directives, the NZSA was acting in a similar manner to accounting associations elsewhere. The Society aimed to support members, not dictate what they did. As professionals, NZSA members retained autonomy of practice.⁸²

The guidelines, whether produced by the NZSA or by other accounting associations, also allowed the profession to confirm its status as the occupation best placed to respond to public demands for improvements in external financial reporting. Lee observed that the accounting profession's development of guidelines for accounting practice enabled the profession to maintain control of accounting knowledge.⁸³ As Freidson and Larson argued, power from knowledge was an important element in the professionalisation process.⁸⁴ Thus, having established the APPC, the NZSA in responding to demands for leadership in accounting practice could be seen to be sustaining its professional status, suggesting that producing guidelines was part of accounting's professionalisation process. If this were so, maintaining professional status in this way came as a cost to the NZSA.

⁸⁰ APPC Report at Annual General Meeting 19 October 1955, *The Accountants' Journal*, 34:5 (1955), pp.199-201.

⁸¹ Report of APPC meeting April 1955, *The Accountants' Journal*, 33:11 (1955), p.393.

⁸² D.A.F. Crombie, 'President's Address to the Annual Meeting,' *The Accountants' Journal*, 32:9 (1954), p.281.

⁸³ Lee (1991 and 1995).

⁸⁴ Freidson (1985); Larson (1977).

The costs of maintaining the APPC were always a problem for the NZSA and the APPC appears to have attempted to compensate for the lack of time and resources to undertake research by creating research committees around New Zealand. In addition to the regional committee looking at the Companies Act Revision, the APPC set up a number of committees in the main centres in 1952, to study a number of other topics. An Auckland committee looked at developments in cost accounting, a Wellington committee studied accounting concepts and standards while a Christchurch committee was to analyse company financial statements and look at ways of improving published accounts. The committees were not successful.

Of the committees, Auckland was the only one to deliver a report. The APPC accepted the Auckland recommendations and distributed these recommendations to NZSA members later in the decade as a Statement on Concepts of Business Income, one of the few opportunities the Committee had to provide guidelines to NZSA members that were produced by New Zealanders.⁸⁵ The Auckland recommendations were also significant in that they had Council authorisation. Crombie assured NZSA members in his Presidential address at the 1954 annual meeting that Council supported APPC guides for members and that the APPC issued guidelines for members only after the Council approved them.⁸⁶ The APPC recommendations were thus official guidelines, although not compulsory.

In 1955, the Council decided that the APPC was studying too many accounting topics, and disagreed with APPC intentions to do research concurrently into accounting standards and practice with research into other (unidentified) professional problems. The Council made it clear to the Committee that it wished the Committee to concentrate on research into accounting standards and practice.⁸⁷ The NZSA Council may have underestimated the magnitude of the task of coordinating research results. The APPC needed secretarial assistance because APPC members were not able to devote enough time to research work and Graham, as the Society's secretary, did not have the time to carry out research and provide background information for the Committee along with his other duties. The APPC frequently discussed the necessity of employing a research officer, preferably full time. When Bass and Strickett raised this issue in 1955 at the NZSA's annual meeting, they

⁸⁵ Report of APPC meeting 16 October 1953, *The Accountants' Journal*, 32:5 (1953), p.167.

⁸⁶ D.A.F. Crombie, 'President's Address to the Annual Meeting,' *The Accountants' Journal*, 32:9 (1954), p.281.

⁸⁷ Report of Council meeting 19 October 1955, *The Accountants' Journal*, 34:5 (1955), p.201.

commented that they had been requesting personnel support for research for 26 years.⁸⁸ Council's response was to appoint D.C. Jamieson as assistant secretary to the Committee. Graham became a full member of the APPC.⁸⁹

This appointment, however, did not satisfy everyone. G.H.V. Bindon, in his Presidential speech at the 1959 annual meeting noted that the NZSA was one of the few major accounting organisations in the British Commonwealth that did not have a research officer or research director.⁹⁰ NZSA Presidents continued to acknowledge that the Society needed to do more to enable research to take place. R.G. Stark, in his Presidential speech at the annual meeting in 1960, noted that the APPC had been constrained in its work because it did not have the support of a research officer. He said that the APPC urgently needed a research officer and his comments had an effect.⁹¹ An editorial in the *Journal* after this meeting noted that there was hope for the future of the accounting profession in New Zealand because at the annual meeting the members had agreed to raise subscriptions to pay for a full time research officer.⁹²

Among the APPC's tasks was the coordination of a number of approaches to conducting research used in the NZSA during the 1950s, such as research lectures, study groups and the thesis competition. In 1956, the APPC approached the Dairy Board to see if that industry was agreeable for research into its accounting methods.⁹³ Nothing appeared to come from this enquiry, although in 1957, Council decided to revive the thesis competition with an award for the best thesis given in 1960, as part of the Society's Jubilee celebrations. The topic was to be on Management Accounting for New Zealand.⁹⁴ Also in 1957, the New Zealand Retail Motor Trade Association approached the NZSA with the idea of a competition for Society members to discuss the best accounting system for petrol stations. The Society agreed to this but ran the competition through the *Accountants' Journal* rather than as a thesis competition. The competition was successful and in succeeding years there were a number of other competitions studying other industries, including timber merchants and garment

⁸⁸ Report of Annual General Meeting 1955, *The Accountants' Journal*, 33:10 (1955), pp.336-340.

⁸⁹ A.W. Christmas, 'President's Address to the Annual Meeting,' *The Accountants' Journal*, 35:9 (1957), p.311.

⁹⁰ G.H.V. Bindon, 'President's Report to the Annual General Meeting,' *The Accountants' Journal*, 37:9 (1959), pp.286-290.

⁹¹ R.G. Stark, 'President's Report to the Annual General Meeting,' *The Accountants' Journal*, 38:9 (1960), p.291.

⁹² Editorial, 'Fillip for Research,' *The Accountants' Journal*, 38:10 (1960), p.321.

⁹³ Report of Council meeting 14 March 1956, *The Accountants' Journal*, 34:10 (1956), p.371.

⁹⁴ 'Winning Entries- Jubilee Thesis Competition on Management Accounting,' *The Accountants' Journal*, 38:10 (1960), p.335. The joint winners were J.E. Field and H.J. Tilly.

manufacturers.⁹⁵ In addition, one member each year could do research or further study overseas through the Society's Travelling Scholarship.

The Accountants' Journal assisted the APPC by publishing reports from research committees overseas. *The Accountants' Journal* reprinted articles from overseas and encouraged NZSA members to respond. *The Accountants' Journal* had a column that commented on the accounting profession in the United States, for example, and later in the decade, an American academic, N.M. Bedford, began a regular column that provided frequent updates on accounting issues the American profession was examining. Throughout the 1950s a number of editorials and articles in the NZSA's journal advocated research in accounting issues.⁹⁶ The editorial in 1956 stressed the essential nature of research as the 'life-blood of accountancy'. The accounting profession, the editorial stated, had an obligation to New Zealand society to help improve the quality of New Zealand life. Fitzgerald supported this, saying that without research 'recognised standards of practice cannot be developed in a systematic and coherent manner.'⁹⁷

The *Journal* was not the only place for NZSA members to improve their knowledge of accounting and contribute to discussions on various accounting issues. Academic members of the NZSA began to play a more prominent role in research. During the 1950s, some of the University Colleges inaugurated annual seminars on accounting issues. From 1953, Victoria University College, for example, held seminars on advanced accounting, where participants had the opportunity to study a number of issues, such as management accounting.

One of the first recommendations from the APPC to Council in 1950 was that the NZSA should hold an annual research lecture. Council immediately adopted the recommendation and Wilkinson, an APPC member and former President, delivered the first research lecture in 1952.⁹⁸ Wilkinson spoke on determining business income in times of rising prices, an issue on which the ICAEW had released Recommendation XII Rising Price Levels in Relation to the Accounts.⁹⁹ R.C. Burgess delivered the

⁹⁵ Graham (1960), p.129.

⁹⁶ Editorials, 'Accounting Concepts,' *The Accountants' Journal*, 30:8 (1952), p.221 and 'Accounting Research in New Zealand,' *The Accountants' Journal*, 34:6 (1956), p.209.

⁹⁷ A.A. Fitzgerald, 'Are there any Accounting Principles?' *The Accountants' Journal*, 35:6 (1957), p.201.

⁹⁸ Report of Council meeting 18 October 1950, *The Accountants' Journal*, 29:6 (1950), p.185.

⁹⁹ Although Council in 1952, at APPC's recommendation, adopted the ICAEW Recommendation XII with minor alterations, the Recommendation did not appear in the 1956 and 1961 reprints of the NZSA *Recommendations on Accounting Principles*. Source: Zeff (1979), p.21.

research lecture the following year. His topic was 'A Survey of some of the more important functions and responsibilities of the Accountancy Profession in relation to Commerce, Finance and Currency'. The Council did not want to have a research lecture in 1954 but the APPC persuaded them otherwise, so R.D. Greenwood gave a lecture on 'Management in Balance' and in 1955 J. Haisman gave the research lecture on 'Livestock Accounting.'¹⁰⁰ Like Wilkinson, Haisman was a member of the APPC and therefore active in studying accounting issues. Burgess and Greenwood, not members of the APPC, most probably were sufficiently well known for their expertise in accounting to be asked to deliver talks. Instead of the 1956 annual research lecture, the Society invited Fitzgerald, from Australia, to give four addresses. The research lectures went into abeyance at this point, Council deciding to wait until it created new committees following an amendment to the New Zealand Society of Accountants Act. At the same meeting that Council decided to do this, Council also decided to run a Summer Course in September 1959. Strickett had first suggested these courses in 1952, noting that accounting organisations in Australia and England were holding them.¹⁰¹

Although the APPC had committees in various branches undertaking research on a number of topics, a few study groups remained active. The Otago branch, for example, noted that one of its groups had met in 1950-51.¹⁰² In 1955, the Otago branch also held six evening sessions where members discussed Greenwood's 1955 research lecture.¹⁰³ The items in *The Accountants' Journal* from branch meetings show that the study groups were in operation but not prominently, possibly because, as noted earlier, the branches were establishing other methods of professional development and research. From the beginning of the decade, the Auckland and Christchurch branches held weekend congresses although attendance may have varied at these weekend meetings, possibly because of lack of time.¹⁰⁴ Many participants were in public practice or working full time and not able to give freely of their time to these meetings. When Wellington tried to hold a weekend course in 1952 it was

¹⁰⁰ The lectures are in *The Accountants' Journal*: Wilkinson, 30:11 (1952), pp.355-387; R.C. Burgess, 31:12 (1952), pp.398-407; R.D. Greenwood, 33:3 (1954), pp.82-92; J. Haisman, 34:3 (1955), pp.94-101.

¹⁰¹ H.E. Strickett, 'President's Address to the Annual Meeting,' *The Accountants' Journal*, 30:9 (1952), p.256.

¹⁰² Report of Otago Branch, *The Accountants' Journal*, 29:10 (1951), p.320.

¹⁰³ Report of Otago Branch, *The Accountants' Journal*, 34:7 (1956), p.278.

¹⁰⁴ C.C. Holland, 'A Consolidation of Presidents' Addresses to Branches,' *The Accountants' Journal*, 29:5 (1950), p.130.

cancelled for lack of numbers.¹⁰⁵

Visiting accounting specialists also helped the efforts of the APPC to improve accounting knowledge and practice in New Zealand. Three notable visitors to New Zealand were P. Everett, Fitzgerald and M.E. Murphy. In 1950, Everett, a partner in the New York office of Haskins and Sells, gave a talk to the Wellington branch of the Society detailing the steps taken by American accountants following the passing of the Securities Act 1933 and the Securities and Exchange Act 1934. As mentioned earlier, at the invitation of the NZSA, in 1956, Fitzgerald delivered four addresses to members of the NZSA on accounting issues, including his thoughts on accounting theory.¹⁰⁶ An American academic, Murphy visited New Zealand in 1953 as part of a Fulbright Fellowship to Australia. She discussed what was happening in the accounting profession in the United Kingdom and the United States.¹⁰⁷ These experts provided firsthand accounts of overseas research and made it possible for members of the NZSA to be aware of what was happening in the profession overseas and who was doing the research. The American and Australian origins of the speakers indicate a shift in influences on New Zealand accounting practice. British accounting developments remained important but now activities in the United States and Australian accounting professions were becoming influential. When Strickett gave a talk on the history of the presentation of financial accounts to NZSA members, like Murphy he began with a summary of both ICAEW and AICPA research in accounting principles.¹⁰⁸

Murphy supported Perkins' ideas for national research.¹⁰⁹ Murphy urged the Society to establish a research section similar to the AICPA's Committee on Accounting Procedure. For accountants like Perkins and Murphy, research by individuals was insufficient. They wanted a more coordinated approach to research. Murphy noted that reliance on individual members of an accounting organisation was a weakness of the profession. She stated that research by groups such as those of

¹⁰⁵ Report of Wellington Branch, *The Accountants' Journal*, 30:7 (1952), p.220.

¹⁰⁶ P. Everett, 'Developments in Accounting Practice in the United States,' *The Accountants' Journal*, 29:4 (1950), p.98.

¹⁰⁷ M.E. Murphy, 'The Last Decade of British Professional Accountancy,' *The Accountants' Journal*, 30:7 (1952), pp.194-205 and 'Accounting Trends in the United States,' *The Accountants' Journal*, 34:9 (1956), pp.334-337.

¹⁰⁸ H.E. Strickett, 'History of and Developments in the Presentation of Accounts,' *The Accountants' Journal*, 38:8 (1960), pp.248-252.

¹⁰⁹ In his Presidential Address in 1951, Strickett noted that a number of past Presidents were keen for the Society to carry out research on accounting issues.

AICPA in the United States was essential 'to clarify the tenets of accountancy.'¹¹⁰ During the 1950s, Council came to agree with this philosophy, noting in 1956 that there was 'no substitute for the pooling of knowledge...that a team provides.'¹¹¹

Even with the profession now used to researching and developing accounting knowledge members continued to debate whether the profession should be doing so. As suggested earlier, not everyone within the NZSA agreed with the idea of conducting research, useful though it was to recognise and apply the outcomes of research activity the cost of research was a prohibiting factor. R.J. Familton noted that research improved productivity in any industry or profession, but I.T. Cook, as President, spoke against research within New Zealand.¹¹² Those in favour of the Society carrying out research argued that New Zealand entities were small and overseas research would not be relevant to them. Research on New Zealand entities was necessary. Cook however considered New Zealand's small size to be a disadvantage as it would be too expensive for the Society to fund research. However, Cook did acknowledge that the profession internationally should carry out research, implying that others should do it, but not New Zealand.

Other members of the NZSA were not satisfied with what the APPC and its committees were doing and they continued to put forward ideas on how the Society could carry out research. Some ideas still emphasised branch research. In a letter to the *Journal*, for example, A.R. Turnbull suggested that retired senior members could raise issues on the quality of financial accounts and then study groups could look at these issues and give recommendations to Council. The editor responded by listing a number of measures that the NZSA had already taken to deal with issues, such as setting up the APPC, using the *Journal* to publish articles and continuing the thesis competition.¹¹³ The official stance of the NZSA remained one of individual research which, Keenan concluded, was in effect individual regulation where accountants were free to use their skills and experience as professionals to judge which methods should be used.¹¹⁴ individual regulation of financial reporting,

¹¹⁰ M.E. Murphy, 'Accounting as a Social Force in the Economy,' *The Accountants' Journal*, 32:6 (1954), pp.174-178.

¹¹¹ Report of Council meeting 24 October 1956, *The Accountants' Journal*, 35:5 (1956), p.192.

¹¹² R.J. Familton, 'Research and Productivity,' *The Accountants' Journal*, 34:6 (1956), p.219 and I.T. Cook, 'President's Address to the Annual Meeting,' *The Accountants' Journal*, 34:6 (1956), p.209.

¹¹³ A.R. Turnbull, letter to the *Journal*, 'Shortcomings of Financial Accounts,' *The Accountants' Journal*, 37:10 (1959), p.356.

¹¹⁴ Keenan (2000).

Overseas, the profession continued to carry out research but was changing its researching structure. In 1952, three smaller Australian accounting organisations combined with the Commonwealth Institute of Accountants to form the Australian Society of Accountants (ASA). The new organisation established an Accounting Research Committee that functioned as a central coordinating committee overseeing State research committees and producing bulletins and statements on accounting practice, similar to that of the research committee in the Australian Institute.¹¹⁵ In the United Kingdom, the ICAEW's research committee by 1958 was revising the recommendations on accounting principles.¹¹⁶ In 1958, following urging from a number of individuals and State Councils, the General Council of the Australian Institute agreed to revise the seven ICAEW recommendations on accounting practice it had adopted in 1946 and study ICAEW recommendations that had been produced since that time. In the United States, the AAA's research committee, the Committee on Accounting Concepts and Standards, issued six supplementary statements between 1948 and 1960.

Although it had fewer resources than these overseas research committees and was not able to conduct the same level of research, the APPC was studying similar topics. The accounting profession remained focused on the most acceptable method or methods of actual practice rather than defining the theoretical basis for that practice, but this research was indicating that there was a need for accounting theory. Accountants recognised that in external financial reporting, for example, there were advantages to reducing the number of acceptable methods and having uniform treatment of business activities.¹¹⁷ It was easier for investors and others to compare company reports when the financial statements were standardised. However, standardising accounts meant that the basic premises of the accounts needed clarifying. That is, what were the underlying assumptions or principles the accepted methods had in common? Once defined, accountants could apply these principles to accounting issues. The problem was achieving a generally accepted set of definitions. Accounting theory was becoming more widely discussed within the profession.

New Zealand accountants followed what was happening overseas, rather than

¹¹⁵ Zeff (1973).

¹¹⁶ Recommendation 18 Presentation of Balance Sheet and Profit and Loss Account, issued in October 1958, replaced Recommendations IV, V, VI and VIII. Source: *The Accountants' Journal*, 39:10 (1959).

¹¹⁷ H.E. Strickett, 'History and Developments in the Presentation of Accounts,' *The Accountants' Journal*, 38:8 (1960), pp.248-252.

participating and contributing to the international debate. In the Society's journal, R.G. Mathews and Haisman were the main contributors to any New Zealand discussion on accounting theory.¹¹⁸ Earlier in the decade, writers such as D.S. Cox provided summaries of overseas research results on accounting theory but Mathews and Haisman went further.¹¹⁹ Mathews noted, 'research into the concepts of principles and conventions is usually classed as research into accounting theory.'¹²⁰ Mathews saw this type of research being useful for best practice because it allowed a comprehensive approach to accounting practice. When queried by a correspondent on the need for research, Mathews replied 'accounting theory is concerned with nothing more than an attempt to explain the rules of accounting...(It) helps the practitioner in determining the principles to be used in the solution of an accounting problem...and promote(s) the development of new principles.'¹²¹ Mathews saw a theory of accounting as not only making accounting thought clearer and accounting objectives better understood, but also providing further justification for accounting as a profession. Mathews' article prompted Haisman to write on 'A scientific approach to Accounting Theory.'¹²² Haisman judged current practice was illogical and unclear at times and he agreed with Mathews that the accounting profession needed a good foundation of accepted principles.

Articles in the *Journal* such as those of Mathews and Haisman showed that some members of the NZSA were prepared to discuss the new ideas on accounting theory that others were debating overseas. However, apart from these articles which the *Journal* published, there was little evidence that the New Zealand accounting profession was making use of the new work on accounting theory. The reports of the APPC meetings during the 1950s, and more particularly the actions of the APPC, showed that the Society did not consider these ideas worth further investigation, or more particularly, did not have the time to devote to them. The APPC did not set up a committee to study possible frameworks for regulating external financial reporting, nor advanced the international work in this area. It is possible that the relatively limited response of the Council to demands for research into areas such as accounting

¹¹⁸ Mathews was a Registered Accountant residing in Wellington. Haisman was a Public Fellow and Councillor from Gisborne. Source: NZSA *Yearbooks* 1930- 1945.

¹¹⁹ D.S. Cox, 'Economists and Accountants,' *The Accountants' Journal*, 29:1 (1950), pp.2-8.

¹²⁰ R.G. Mathews, 'The Scope of Accounting Theory,' *The Accountants' Journal*, 34:12 (1956), p.426.

¹²¹ 'Practical,' letter to the *Journal*, *The Accountants' Journal*, 35:3 (1956), p.93.

¹²² J. Haisman, 'A Scientific Approach to Accounting Theory,' *The Accountants' Journal*, 35:4 (1956), pp.119-123.

principles and standards was because the early New Zealand accounting profession had close links to the profession in the United Kingdom and therefore did not see the need to develop accounting practice separately from the British profession. Even though the NZSA was bringing American and Australian speakers to New Zealand, Council actions were ruled to a great extent by what was happening in the accounting profession in the United Kingdom, as seen in the NZSA adopting recommendations for accounting principles as released by ICAEW and the Society continued to follow the lead of the British accounting associations. Fitzgerald acknowledged this when he noted that although Australian and New Zealand accountants were less likely than their British counterparts to disclose reserves in financial reports, he was certain that they would adopt the British standards.¹²³

The New Zealand accounting profession did not experience the same pressures for developing new accounting methods of practice as its counterparts in the United Kingdom and United States where, as Murphy noted, the impetus for accounting research came from major law cases.¹²⁴ There were no major scandals in the New Zealand business community and consequently there was not the same demand to improve the quality of company external financial reports in New Zealand, as there was overseas. Although New Zealand did not have an equivalent level of pressure, the NZSA still analysed the external financial reports of New Zealand public companies. In the Society's journal, writers such as 'Scrutator' continued to be critical of the quality of New Zealand company reports.¹²⁵ In the United States, there was still resistance from some accountants who thought that accounting was a practical occupation and accountants should confine their professional development to refining accepted practice. Fitzgerald noted the difficulty accounting organisations had in getting members to accept the need for research and having the resulting recommendations adopted by members.¹²⁶

One consequence of several countries researching similar accounting issues was increasing convergence of findings. In external financial reporting this tendency towards commonality of benchmarking was to prove significant for the future of

¹²³ A.A. Fitzgerald, 'Australian Visitor's Comments,' *The Accountants' Journal*, 29:1 (1950), p.10.

¹²⁴ M.E. Murphy, 'Accounting as a Social Force in the Economy,' *The Accountants' Journal*, 32:6 (1954), p.178.

¹²⁵ See, for example, 'Scrutator,' 'Annual Accounts Discussed,' *The Accountants' Journal*, 29:2 (1950), p.49.

¹²⁶ A.A. Fitzgerald, 'The Role of Professional Societies in the Development of Accounting Theory,' *The Accountants' Journal*, 35:7 (1957), pp.243-249.

standard setting. To ensure consistency and quality of guidelines, the accounting profession accepted the importance of uniform treatment of accounting practice and the use of 'principle' as a guide and standard of practice. There was also general agreement in the profession that accounting reports were the responsibility of management and that the financial reports, therefore, were important in providing necessary financial information. The profession debated form and presentation of external financial statements, for example, accepting that stock should be valued at the lower of cost or market value, although the United Kingdom and United States professions disagreed on cost and market prices. A problem for all countries was how to account for changing price levels and, in the United Kingdom and United States, a number of financial collapses highlighted misuse of reserves.¹²⁷

In New Zealand, the APPC had its own issues. By 1959, the limitations of what the APPC could do in response to what was now a greater need for standardisation of accounting practice were too great for it to continue as it was. Stark, in his Presidential Address in 1960, noted the disadvantage the Committee suffered because it lacked resources to complete its tasks, supporting Strickett's earlier observation.¹²⁸ The APPC recommended to the Council that the Committee narrow its focus to coordinating research from other areas of the Society and that the Society increase its support for the Committee.

Conclusion

This chapter examined the steps the NZSA took leading to the formation of the APPC and its activities during the 1950s and showed the influence of British accounting practice as the NZSA officially accepted the need for a national research committee. The chapter argues that the NZSA's decision to establish the APPC indicated that the majority of members now accepted the association had a professional responsibility to provide direction and guidance in areas such as external financial reporting thus reducing some of the economic consequences of inadequate financial information.¹²⁹ As Robson *et al.* have argued, the external pressure on the accounting profession to improve entity financial reporting was both an acknowledgement that the profession had the skills and expertise to do so and an

¹²⁷ A.A. Fitzgerald, 'The Role of Professional Societies in the Development of Accounting Theory,' *The Accountants' Journal*, 35:7 (1957), pp.243-249.

¹²⁸ Strickett, private correspondence. Source: Zeff (1979), p.25.

¹²⁹ Cooper and Keim (1983).

expectation on the profession to act in the public interest.¹³⁰

By accepting this responsibility the profession was also reinforcing the contribution of standard setting to a key element in its professionalisation process, namely acquisition of power from specialised knowledge. Confirming the observations of Friedson, Larson and others, this chapter showed that the NZSA came to acknowledge the worth of encouraging research and developing specialised accounting knowledge. These actions strengthened the professional status of accountants. That power from knowledge was an important element in the success of the professionalisation process for any profession is clear in Freidson's view that 'a body of knowledge and skill' was a theoretical constant in professionalism and Reader's conclusion that knowledge was a basic element of professional standing.¹³¹

Larson's model of the professional project also stressed the importance of the collective action of groups. This was observed in the role of accounting associations, such as the NZSA, in taking a lead in producing guidelines for external financial reporting. Regulating external financial reporting was a new accounting practice and, because this involved the standardisation of reports, required the coordinating direction of accounting associations. Hoskin and Macve stressed the importance of the associations controlling access to specialised knowledge to ensure dominance in work practices.¹³² Macdonald and Lee agreed.¹³³ As is evident in this chapter, the NZSA's decision to establish the APPC gave the New Zealand accounting profession the opportunity to establish its dominance as the regulator of external financial reports.

Although the APPC was not completely successful in achieving its designated tasks, the Committee did bring about a general change in members' attitudes towards accounting research. Unfortunately, the limited resources of the NZSA meant that the APPC could not focus on practical accounting matters let alone theoretical research. However, as the evidence of this chapter shows, the APPC proved to Council that it was possible even in a country as small as New Zealand to use national level research to guide members in their practices and provide an opportunity for national research in accounting issues.

Despite some decrease in individual autonomy, because guidelines, even if voluntary, still place some restrictions on accounting practice, this thesis argues that

¹³⁰ Robson et al (1995).

¹³¹ Freidson (2001); Reader (1966).

¹³² Hoskin and Macve (1994).

¹³³ Macdonald (1995); Lee (1995).

the New Zealand accounting profession had strong incentives to undertake research on accounting issues and take a lead in providing direction in areas such as the preparation of financial reports. Maintaining power from accounting knowledge through exams was an already accepted means of professionalisation. Now, as this chapter demonstrated, the profession was adding its ability and knowledge to produce guidelines for external financial reporting in a similar way to show that accountants were responding as professionals to public demands for improved reports. This action raised the accounting profession's profile in the New Zealand business and state sectors and thus helped maintain the profession's social and economic status.

Chapter Seven: ‘Feeling our Way’: The Board of Research and Publications 1961 to 1969

Introduction

By 1961 the accounting profession was committed to responding to public demands for regulating external financial reporting.¹³⁴ In New Zealand, the NZSA was using the ICAEW recommendations as guidelines and the APPC had established committees to study financial reporting, among other accounting issues. The first section considers the ongoing research efforts of the NZSA during the 1960s, looking in particular at the activities of the Board of Research and Publications (BRAP/the Board). The second section discusses an international theme already apparent in the history of standard setting, placing the New Zealand activities in the context of standard setting developments overseas.

The Council of the NZSA did not consider that it was creating a standard setting committee when, in 1961, it dissolved the Accounting Practice and Procedure Committee and formed the Board of Research and Publications. Instead, the Council was reworking a committee that had failed to achieve all its aims. The Council wanted BRAP to do what the APPC had not been able to do; focus on coordinating research in accounting within the NZSA. However, BRAP did more than coordinate research. By the end of the decade the NZSA was an established standard setter, issuing a number of standards for accounting practice that both responded to local accounting issues and reflected what was happening internationally in the accounting profession.

The Board of Research and Publications

Membership

Reworking APPC into BRAP allowed the NZSA’s Council to show that it recognised the importance of research in achieving guidelines for best practice. The Council did not create BRAP because it was dissatisfied with the work of the APPC. The APPC itself was unhappy with what it was achieving and members were concerned that the Committee did not have the resources to carry out research on issues of accounting practice, including those raised by members of the Society. The Committee focus was the revision of the Companies Act and it was unable to do much more. The APPC made this clear in annual reports to the Council. Accordingly, in

¹³⁴ Muis (1977).

1961, Council ‘reconstituted’ the APPC into BRAP, in effect reconfiguring APPC, giving the committee a new name and changing its composition to better emphasise a new focus.¹³⁵

The Council recognised that the Society needed to provide members with direction into ways of best practice, but that the APPC, as then constituted, could not carry out the research needed. Just as the Council made it clear in its title that BRAP was to concentrate on research, so this intention came through in the Board’s Terms of Reference.

(1) Policy of the Board

- (i) The Board will take active steps to encourage research in accountancy and to encourage publication of suitable material designed to aid the profession in its forward development
- (ii) Without limiting the scope of the work of the Board it is considered that, in the meantime, the latter should devote specific attention to the projects which can be of practical benefit to the profession

(2) Conduct of Research

- (i) That all subjects of research received from Council, members of the Society, national committees or other sources should be channelled through the Board which would direct appropriate persons, committees or university groups to undertake the actual research work
- (ii) That national committees should advise the Board of any research projects commenced by their particular group
- (iii) That the final approval of the completed projects be the responsibility of the Board.

Note: this statement is not to be taken as excluding the conduct of independent projects of national committees not involving the use of Society administrative facilities.¹³⁶

The Council therefore saw research helping the profession in its forward development. Although ‘forward development’ was not defined, the phrase indicates that the Council recognised the importance of the profession progressing and being seen as a profession that continued to improve the quality of its service to society. It is possible that the Council kept the policy statement general to minimise uncertainty and unease from those members who did not think that the Society should undertake research as such. Certainly the wording of the Terms of Reference implies individual or small group study rather than the NZSA officially conducting research that would provide direction for all members. It is also possible that the Council was unsure, or not willing to dictate, what direction the profession should pursue: hence the freedom that BRAP had to decide the research undertaken. The Council, however, did maintain control over what BRAP produced. BRAP had the authority and responsibility for overseeing all research in the Society but final statements required Council approval.

¹³⁵ Report of Council meeting September 1961, *The Accountants’ Journal*, 40:4 (1961), pp.120-122.

¹³⁶ Ibid.

The significant overlap of members between the two committees showed that the Board was a continuation of APPC. Five of the twelve members of the APPC remained on the new Board: H.G.F. Callam, W.S. Gilkison, A.W. Graham, W.G. Rodger and R.W. Steele. Callum was the first chairperson of BRAP. He remained on BRAP for one year and Steele stayed for two years. The others carried on for longer. Rodger left BRAP in 1965, Graham in 1967 (after being chairperson for six years following Callam's departure) and Gilkison in 1968. There were other membership connections between the two committees. H.E. Strickett, who had been the Chair of APPC for many years, but was not on the APPC in 1959, joined the new Board for 1961. A.A.Q. Solomon, who also had been on the APPC, was Vice President of the Society in 1961 and therefore an ex officio member of the Board.

Through the 1960s, Board membership varied between eleven and thirteen. BRAP was therefore about as large as the APPC had been. However, although there was an overlap of membership, the committees had different membership bases. APPC members had been mostly in public practice with some members from commerce. On the other hand, while the majority of its members were in public practice, the Board's membership had a greater mix of those in public practice, commerce and academia. Between 1961 and 1969, there were 22 NZSA members on BRAP. Six members were academics thirteen members were in public practice and three in commerce.¹³⁷ Having a majority of Board members in public practice, even though they were a minority in the Society indicates that NZSA members expected the Board to continue considering accounting issues from the point of view of accounting practice.¹³⁸ The emphasis on accounting practice is evident in the only exception to having NZSA members on BRAP. In 1962, H.F. Foster, a Cost Institute representative, was a member of the Board.

Of the former APPC members, Graham was the Society's Secretary and Callam, Gilkison, Rodger, Strickett and Steele were Public Accountants. Of the new members of BRAP, J.A. Stone was also in public practice while L.W. Logan and F.V. Noble-Beasley were in commerce. The significant difference between BRAP and the APPC was that there were four academics on the new Board: A.S. Carrington (University of Canterbury), L.W. Holt (University of Auckland), R. Sidebotham

¹³⁷ They were L.W. Logan (Cadbury Ltd), F.V. Noble-Beasley (Seabrook, Fowlds Ltd), J.M. Robertson (BALM Paints Ltd). Source: *NZSA Yearbook* 1961-1969.

¹³⁸ *NZSA Yearbooks* 1961-1969.

(Victoria University of Wellington) and T.K. Cowan (University of Otago).¹³⁹ The influence of the academics on the working of the Board soon became apparent.

The NZSA and academe

Accounting academics were a new type of accountant in New Zealand and they were to be influential in making research possible. Until 1960, accounting in the Colleges of the University of New Zealand was located within the Arts faculties. Lecturers in accounting were usually full time public practitioners who taught part time in the evenings. In 1960 and 1961 there was a major restructuring of the university system in New Zealand. Four universities were created from the colleges of the former University of New Zealand. The new universities created Departments of Accountancy and established Chairs. The NZSA supported these changes, noting that the improved university link with accounting would be of ‘incalculable benefit to the profession in standing, in facilities for research and in standards of tuition.’¹⁴⁰ The NZSA had made a submission to the University Senate as early as 1950 for Chairs to be established in accounting. In its submission in that year, the NZSA noted the importance of accounting, accounting research, the number of students taking accounting subjects already and the service accountants gave to the community.

The NZSA also put forward an argument that accounting deserved to be considered as an academic subject. The Senate of the University of New Zealand accepted this argument in the creation of the Departments of Accountancy.¹⁴¹ In 1960, the Universities of Canterbury and Otago were the first to appoint professors of Accountancy, just at the time the Council of the NZSA was considering how to help the APPC become more effective. Council deliberately reorganised the APPC in 1961 to take advantage of the newly appointed academics. The new professors were already members of the NZSA and with their research resources they were in a position to help the Council achieve its aims of developing accounting guidelines.

New Zealand universities did not have full time lecturers in accounting until the 1960s. When the universities first recognised accounting as an academic subject, this was usually within the History and Economics Departments. The majority of

¹³⁹ T.R. Johnston replaced Holt within the year.

¹⁴⁰ G.H.V. Bindon, ‘President’s Address to the Annual General Meeting,’ *The Accountants’ Journal*, 37:9 (1959), p.288.

¹⁴¹ Having a Department of Accountancy did not necessarily mean that other Departments considered the subject was academic.

students were also part time, working elsewhere during the day.¹⁴² This was a reflection of the nature of accounting. It was an occupation, not an academic profession, and many practitioners came into accounting through employment in offices, working in commerce and then deciding to become qualified.

Even so, the NZSA did have links with tertiary level education through members who were part-time teachers and lecturers and through the papers that had to be taken to become members of the Society. Several members who were actively involved in the Society as office bearers, such as Presidents C.H. Perkins, C.C. Holland and J.A. Valentine, were also teaching courses at the universities, Perkins and Holland at the University of Canterbury and Valentine at the University of Otago. At Victoria University of Wellington one of the most influential part-time lecturers was W.G. Rodger who, as discussed earlier in this thesis, made a significant contribution to the debate on accounting theory. S. Gilkison at the University of Otago was notable not only for his teaching but also for his regular and very informative students' section in *The Accountants' Journal*. Students intending to become accountants studied at the universities and other accredited institutions but the NZSA controlled the qualification acceptable for admission to membership of the Society. The requirements of the NZSA therefore largely but indirectly determined the content and structure of accounting courses, even in the universities, because entry to the profession was through these courses. One consequence of this strong input from the Society was that the focus for many students and lecturers was accounting practice, rather than accounting theory.

The NZSA supported the appointment of full time lecturers and professors of accounting, but the Society did not support the notion of full time students, an issue that was vigorously debated for several decades. Some members wanted students of accounting to be full time, to receive rigorous and thorough training in accounting. Such students entering the profession would be better trained and more skilled. Also, higher standards of entry enhanced the profession's social status through higher quality accounting services. Other members of the Society opposed the idea of full time study for accounting. They considered that access to the profession via full time study might exclude some able students because they could not afford to attend

¹⁴² At the University of Canterbury, for example, in 1951, 93% of accounting students were part time and in 1970, 33%. Source: W.J. Gardner, E.T. Beardsley and T.E. Carter, *A History of the University of Canterbury 1873-1973*, (Christchurch, 1973), p.402.

university full time. The Society's journal for many months during 1960 published articles and correspondence but the decision was finally determined by the universities who were in favour of full time studies.¹⁴³ When the lecturers in accounting became full time and professors appointed, the accounting courses accordingly were slowly adapted to accommodate full time students.

In 1960, Carrington at the University of Canterbury and Cowan at the University of Otago became Professors and Heads of Accountancy Departments. Within a few years, the University of Auckland appointed Holt as Professor of Accountancy and Victoria University of Wellington appointed Sidebotham to a similar position.¹⁴⁴ All these appointments were of men who had been lecturing in the university system but who had begun their careers in the private sector. Carrington and Cowan, for example, had been company accountants and Cowan for a time was a public accountant. Most were educated as accountants, Carrington at Victoria University and Cowan at the University of Otago. Holt while practising as an accountant gained a degree in economics from the University of Auckland before being appointed to the university as an accounting lecturer. Sidebotham was appointed from the University of Manchester, where he was a lecturer in accounting. Johnston, appointed Professor of Accountancy at the University of Auckland following Holt's retirement, was an exception. Johnston, educated at the University of Auckland, first qualified but did not practice as a lawyer. He gained a commerce degree and began lecturing in accounting at Auckland after World War II. Carrington and Johnston's careers included periods at Australian universities in Sydney and Melbourne. Cowan spent his career at Otago University.

The careers of these men were similar to those of the first holders of chairs of accounting in Britain several decades before, where the first chair was given in 1914 to B. Shields at University College, Galway.¹⁴⁵ Shields' position was part-time and the first full-time British Professors were not appointed until 1947. They were Baxter at the London School of Economics and Cousins at the University of Birmingham. Professors of accounting in British universities were, as in New Zealand, mostly

¹⁴³ See, for example, 'Correspondence: University Study: Full Time or Part Time,' *The Accountants' Journal*, 38:10 (1960), p.349; W.S. Gilkison, 'Students' Section: Part Time Study: a plea for understanding,' *The Accountants' Journal*, 38:11 (1960), p.381 and E.G. Budge, 'The Universities and Accountancy Education,' *The Accountants' Journal*, 39:1 (1961), p.18.

¹⁴⁴ Millen (1985), p.20. See also Trow and Zeff (2010).

¹⁴⁵ Clarke (2005).

‘practitioner academics,’ in private practice and lecturing part-time.¹⁴⁶ However, the New Zealand chairs were created fifty to sixty years after the British chairs and consequently the New Zealand academics had received university educations unlike the first holders of the chairs of accounting in Britain. In general the New Zealanders had similar educations and careers to their Australian counterparts, but the Australian appointments were a few years before those in New Zealand. A.A. Fitzgerald became the first Australian Professor of Accounting in 1955, but his position was part-time at the University of Melbourne and he continued with his private practice. The first full-time Professor of Accounting was E.B. Smyth also in 1955 at the New South Wales University of Technology.¹⁴⁷

Employing full time lecturers of accounting in the universities gave the NZSA the opportunity to make more use of academics in accounting research. Until this time, individual members who were professional accountants, fully employed in their occupations, conducted most of the research in accounting in New Zealand. At most, research could only be a part time task. Therefore, at the same time as the universities began employing full time lecturers and creating specialist accounting departments and appointing professors of accounting, the NZSA disestablished the APPC and created the Board. From the time of their university appointments the professors were members of BRAP.

The minutes of the Board meeting for 11 May 1961, the first meeting of the new committee, stated that BRAP will ‘...determine in what manner the Society’s various research projects would be carried out and the manner of their publication. The Society hoped that the universities would be able to assist materially in the work of the Board.’¹⁴⁸ The professors from the main universities were actively involved in BRAP’s subcommittees, drafting many of the Board’s papers and organising seminars for Society members. In 1961, for example, the University of Otago held a Study Conference, Victoria University of Wellington ran an Accounting Seminar and the University of Canterbury held an Advanced Accounting Workshop.¹⁴⁹

The new university academics were active contributors to the Society in other ways. As mentioned above, they regularly wrote articles for the Society’s journal and

¹⁴⁶ Anderson-Gough (2009), p.309. See also Clarke (2005); Carnegie and Williams (2001);

¹⁴⁷ Carnegie and Williams (2001).

¹⁴⁸ Report of Research meeting, ‘Specialist Committees Meet,’ *The Accountants’ Journal*, 39:12 (1961), p.397.

¹⁴⁹ Editorial, ‘Accounting Seminars,’ *The Accountants’ Journal*, 39:12 (1961), p.420.

communication between New Zealand universities and those overseas improved. For example, the Department of Accountancy at the University of Canterbury began a regular column in the *Journal* summarising articles and books published on a number of accounting issues. In this way, members of the NZSA had the opportunity to learn about the best of the literature produced overseas.

During the 1960s, there was a high level of international awareness and cooperation in the accounting profession and greater movement of professional accountants around the world. The profession was becoming more global in outlook and new accounting information was reaching more members. New Zealand had a steady stream of internationally known academics and practitioners who visited and shared ideas and views with branches of the Society. Improving technology brought better transport and communication making it possible for people such as N.M. Bedford to respond to invitations from New Zealand universities. M. Moonitz, here as an Erskine scholar later in the decade, gave significant advice to BRAP on how to set up a process for the development of accounting standards in this country.¹⁵⁰ New Zealand accountants and academics also travelled overseas and gained experience working in United Kingdom and United States accounting firms and visiting universities.

Developing Tentative Statements of Accounting Practice

Accounting associations now either had their own research committees or cooperated with other associations to form committees to consider accounting issues.¹⁵¹ BRAP was the only national committee carrying out research in New Zealand's main accounting organisation. The situation was more complex in Australia where the Australian Society of Accountants established Research Committees in each of the States and these continued to release a variety of bulletins that covered a wide range of accounting activities. The other major Australian accounting organisation, the Institute of Chartered Accountants had Research Societies in each State that continued their work from the 1950s as well as ad hoc research committees that concentrated on particular issues. The Institute also had a Research and Service Foundation, which in 1958 began working on the revision of the Australian versions of the ICAEW Recommendations on Accounting Principles. The Committee on

¹⁵⁰ Zeff (1979).

¹⁵¹ Zeff (1972).

Accounting Principles and Auditing Practice (AP&AP) replaced the Foundation in 1964 and in 1967 a Research Committee and Technical Committee replaced the AP&AP Committee. These committees lasted until 1969 when the Institute established the Accounting Principles Committee.

Research in Australia strengthened when the two Australian organisations decided to cooperate in accounting research and in 1965 they jointly formed the Australian Accounting Research Foundation (AARF). An Accounting and Auditing Research Committee, which oversaw the work of the Foundation, had 12 members, six from each organisation. The Institute's representatives on the Committee were all public practitioners. The Society's representatives were three company executives, one civil servant and two academics. The AARF was now the Australian accounting profession's main accounting research institution.

Accounting research in New Zealand remained the responsibility of BRAP, the NZSA's research committee. The Board's first projects were the research projects the APPC had started. Consequently, the Board continued to rely on the study groups as research resources. The study groups in the main centres, established by the former Committee to help it focus on a number of accounting issues, carried on during the 1960s, supporting BRAP in its research work. At its first meeting, BRAP decided to continue with such APPC projects as writing a handbook for members that would give practical advice to members and providing guidelines on accounting practice. The Board differed from APPC in that, although it intended to provide practical assistance to members of the Society, it also began a process that shifted emphasis from recommendations of best practice to tentative statements of accounting practice.

Guidelines for accountants in external financial reporting varied around the world. By 1960, for example, the United States had spent thirty years codifying much of its accounting practice. Members of the American professional accounting body, the American Institute of Certified Public Accountants (AICPA), used 32 Statements on Accounting Principles issued by two committees, the Accounting Principles Board (APB) and its predecessor, the Committee on Accounting Procedure (CAP).¹⁵² In the United Kingdom, on the other hand, best accounting practice was less prescriptive. By 1964, the Institute of Chartered Accountants in England and Wales (ICAEW) had

¹⁵² P. Grady collated the 32 accounting principles under 5 objectives and 10 basic concepts in his 1965 report to the AICPA, *Inventory of GAAPs in the USA*. This publication was reviewed by Johnston in *The Accountants' Journal*, 43:9 (1965), p.345.

produced 22 recommendations on accounting principles. They were not as detailed as the American Statements and they were recommendations, not statements. Although 'you started to realise there were indeed these very firmly entrenched rules...they were never in writing.'¹⁵³

As noted previously, the accounting organisations in both New Zealand and Australia had adopted the ICAEW's Recommendations on Accounting Principles in 1946. Whereas New Zealand and Australia stayed with these original British recommendations the ICAEW, the British accounting institution releasing the recommendations had revised and replaced many since 1946. Now, in the 1960s, Australia and New Zealand separately began reviewing these recommendations in much the same topic order and time to make them more suited to current economic conditions. Both countries renamed the revised recommendations as Statements. New Zealand issued five Tentative Statements of Accounting Practice (TSAPs) and the Institute of Chartered Accountants in Australia issued three Statements on Accounting Practice.

It took BRAP almost three years to determine how it would approach the revision of the recommendations the NZSA had adopted almost twenty years earlier. One problem the Board had was that it met only twice a year which was not frequent enough to accomplish its tasks in a timely manner. Nor was the biannual meeting programme sufficient for the Board to make full use of academic research facilities.¹⁵⁴ It was not until 1964 that the Board began issuing revised recommendations as TSAPs. The process adopted by the Board was that it would draft a statement and issue it to members for comment. After receiving comments on the suggested statements and reworking them, the Board gazetted the statements in the Members' Handbook as Tentative Statements on Accounting Practice.¹⁵⁵ The decision-making process within the Board was strong and working relations good. Board members had 'good discussions' but there was usually little disagreement once the drafts had been reworked, reflecting the level of communication and understanding between public accountants and other NZSA members.¹⁵⁶ This contrasts with the findings of Noguchi and Edwards in their study of the ICAEW from 1948 to 1966. They noted the lengths

¹⁵³ D.G. Trow, interview 15 July 2009.

¹⁵⁴ Zeff (1979), p.33.

¹⁵⁵ Editorial, 'Improving Accounting Standards,' *The Accountants' Journal*, 43:2 (1964), p.41.

¹⁵⁶ F. Devonport interview 19 May 2007.

the ICAEW Council had to go to in its efforts to reduce conflicts between practising and industrial members drafting the Recommendations on Accounting Principles.¹⁵⁷

TSAP-1 Presentation of Company Balance Sheets and Profit and Loss Accounts, was issued in October 1964, replacing Recommendations 1 to IV of the Recommendations on Accounting Principles.¹⁵⁸ BRAP issued four more TSAPs between 1964 and 1968.¹⁵⁹ The Australian Institute replaced Recommendations I, III and IV with D1.1 Presentation of Balance Sheets in December 1963, a year before the New Zealand Society issued TSAP-1, which in the main covered the same topic, although the Australian Institute did not review profit and loss accounts, which the Society had included in TSAP-1. The Australian Institute issued an Exposure Draft on profit and loss statements in 1967.

TSAP-2 Allocation of Income Taxes to Accounting Periods and TSAP-3 Valuation of Inventories were issued in October 1966 and February 1967 respectively. The two statements were in effect United Kingdom Recommendations that the ICAEW revised a few years before. For example, TSAP-2 was based on ICAEW Recommendation 19 The Treatment of Taxation in Accounts. The ICAEW issued Recommendation 19 in October 1958, replacing Recommendation III it had issued in the 1940s. The Board adapted the United Kingdom Recommendations for New Zealand conditions. The second Australian guideline, which was issued in December 1963, at the same time as D1.1, D2 Treatment of Stock-in-Trade and Work in Progress in Financial Accounts, replaced ICAEW Recommendation VII.

BRAP in its revision of the recommendations continued to look to the British guidelines. The Council approved TSAP-4 Depreciation of Fixed Assets in February 1968 and TSAP-5 Accountants' Reports for Prospectuses in March 1968. Like the third Australian guideline issued in the 1960s, D3 Accountants' Reports for Prospectuses, which was issued in 1964, four years before the New Zealand guideline, these statements were adaptations of other ICAEW guidelines. ICAEW had first issued Recommendation 13 Accountants' Reports for Prospectuses: Fixed Assets and Depreciation in 1949 and Recommendation 16 Accountants' Reports for Prospectuses: Adjustments and Other Matters in 1953.

¹⁵⁷ Noguchi and Edwards (2004).

¹⁵⁸ Appendix N.

¹⁵⁹ Ibid.

In its deliberations, the Board tried to create statements that struck a balance between being innovative and conservative. Accountants would avoid using statements that were too innovative. On the other hand, if the standards were too conservative then best practice could not improve.¹⁶⁰ There was no defined theoretical basis to the statements for they remained based on ICAEW recommendations to the extent that the titles of the statements in both New Zealand and Australia were almost identical with the ICAEW titles. The British influence on both countries' accounting statements remained strong. The American influence on New Zealand accounting practice was less obvious but becoming more important. The AICPA Committees' Bulletins and Opinions were available to BRAP members as were articles from American academics and reports from American accounting research committees. One tentative statement drafted by BRAP, TSAP-2 Allocation of Income Taxes to Accounting Periods was based on the corresponding American guideline.¹⁶¹

One issue that was arising in several countries was the degree to which the statements issued by accounting organisations were followed in practice. As in Australia and New Zealand, accounting statements were not compulsory in the United Kingdom or the United States. In the United States, the APB pressured the Council of AICPA to make APB pronouncements compulsory, and for APB statements to be the only acceptable generally accepted accounting practice.¹⁶² In 1964, the Council of AICPA agreed that APB pronouncements were the only acceptable generally accepted accounting practice. However, these statements were still not compulsory, although entities had to highlight departures from them in their external financial statements. The tentative statements issued by the New Zealand Board were also not compulsory for entities to follow. They were guidelines only. The debate on the authority of the statements continued in New Zealand throughout the decade.

Some members of the NZSA were critical that TSAPs did not have the authority of the Council, although they needed Council approval before being issued. These members felt TSAPs needed this level of authority for successful implementation.¹⁶³ The President at this time, B.F. Anderson, in his address at the annual meeting supported the Board issuing TSAPs and recognised the need for more

¹⁶⁰ T.G. Hull, 'President's Report to Members,' *The Accountants' Journal*, 43:8 (1965), p.288.

¹⁶¹ M.E. Bradbury, 'Harmonising with overseas standards: a New Zealand perspective,' *Australian Accounting Review*, 8:2 (1998), pp.18-23.

¹⁶² D.H. Skadden, 'American Professional Survey,' *The Accountants' Journal*, 43:5 (1964), p.183.

¹⁶³ J.B. Ryan, 'Official support for Statements on Accounting and Auditing Practice and Research Reports,' *The Accountants' Journal*, 45:10 (1967), pp.410-418.

authority for TSAPs.¹⁶⁴ The Council, however, twice rejected a request from BRAP for this authorisation.¹⁶⁵ This shows that even the support of prominent members of the NZSA was not enough to change the attitude of most members. Indeed, as Keenan observed, NZSA members were not obliged to follow the statements. The ‘true and fair’ override of the Companies Act took precedence over any statement meaning that ultimately regulation remained external and statutory.¹⁶⁶

The New Zealand accounting profession had yet to fully accept the concept of drafting TSAPs. The statements were just one topic in the wider range of issues researched by BRAP. Regulating external financial reporting by standardising the reports was not yet a recognised professional activity. Many members remained wary of any move away from individual judgement in practice or which introduced practice from a theoretical basis, even though BRAP was showing it was possible to have what Keenan referred to as collegiate regulation.¹⁶⁷ That is, members acting on behalf of the association to produce suggested accounting methods for the association to follow. As D. Trow observed, ‘the profession wasn’t so trusting of those who were full-time academics.’¹⁶⁸ This mistrust was becoming subsumed by the broader issue of how to get entities to comply with TSAPs for the advantages of standardising reports were beginning to outweigh this perceived disadvantage. The issue of compliance sparked editorials and correspondence in the Society’s journal through the remainder of the decade but the Society’s concerns were not as great as the journal’s literature indicated.¹⁶⁹

Although the guidelines were not mandatory, in general, New Zealand entities followed NZSA guidelines. R.W. Hopkins looked at a number of New Zealand entities to gauge the extent of their adoption of NZSA recommendations and the requirements of the 1955 Companies Act. He found that entities were fulfilling the requirements of the Act and following the recommendations.¹⁷⁰ But Hopkins recognised that to have all entities doing the same would take more definite measures.

¹⁶⁴ B.F. Anderson, ‘President’s Report to Members,’ *The Accountants’ Journal*, 46:4 (1967), p.129.

¹⁶⁵ Report of Board of Research and Publications Meeting 9 November 1967, *The Accountants’ Journal*, 46:5 (1967), p.188.

¹⁶⁶ Keenan (2000).

¹⁶⁷ Ibid.

¹⁶⁸ D. Trow interview 15 July 2009.

¹⁶⁹ Editorial, ‘Improving Accounting Standards,’ *The Accountants’ Journal*, 47:4 (1968) p.133 and R.C. Pope, ‘Letters to the Editor: Standards of Financial Reporting,’ *The Accountants’ Journal*, 47:4 (1968), p.167.

¹⁷⁰ R.W. Hopkins, ‘Trends in Public Company Reporting,’ *The Accountants’ Journal*, 41:2 (1962), p.40.

He favoured statutory regulations ‘...to bring less progressive companies up to reasonable minimum standard.’¹⁷¹ A few years later, R.W. Stannard noted that clarity in financial reporting could only come from applying rules that ensured consistency and similarity in financial statements.¹⁷² T.R. Johnston also agreed with Hopkins. When discussing the concept of ‘true and fair’, Johnston noted that legislation was required for auditors to have the authority to ensure that company financial reports reflected a true and fair view of the state of an entity.¹⁷³

Tentative statements were not the only recommendations that BRAP issued. At times during the decade, BRAP wrote Opinions for members on various issues of accounting practice. Opinions had even less authority than TSAPs but they gave expert guidance on the implementation of the TSAPs. Between 1959 and 1965, BRAP issued five Opinions along with a number of other research studies. The Opinions and research studies did not require the approval of the Council for they were intended to foster discussion among Society members.

The Board did not confine itself to developing statements of best practice. During the decade, in addition to the TSAPs and Opinions, the Board completed a project on farm accounting and supervised projects on accounting for clubs, management accounting for smaller manufacturers, company law amendments and trends in financial reporting. At the end of the decade, BRAP was about to set up new projects on the auditor’s duty to verify stock, recommendations on accounting practice, trade union audits and land agents’ trust accounts.

Some Board recommendations the Council adopted were similar to those of the APPC, allowing NZSA members to improve their knowledge of accounting through discussions of various accounting issues. BRAP suggested the inauguration of an annual research lecture, which was in effect a revival of the lectures from the previous decade, delivered by a member of the NZSA.¹⁷⁴ A.W. Graham, the Secretary of the Society and a member of BRAP, gave the first lecture in 1963. The following year, Carrington gave the research lecture. There was no lecture in 1965 and for the remainder of the decade the lectures were delivered by J.D. Rose in 1966, N.M. Bedford in 1967, B.L. Murray in 1968 and Sidebotham in 1969. Rose was a member

¹⁷¹ Ibid, p.41.

¹⁷² R.W. Stannard, ‘The Inadequacy of Financial Accounts,’ *The Accountants’ Journal*, 44:9 (1966), p.343.

¹⁷³ T.R. Johnston, ‘Is the standard ‘True and Fair View’ of the State of Affairs Attainable in a Balance Sheet?’ *The Accountants’ Journal*, 45:11 (1967), p.443.

¹⁷⁴ Box 26 Library, ICANZ Head Office, Wellington.

of the Society, General Manager of two subsidiaries of Fletcher Holdings Ltd and the first New Zealand winner of an Eisenhower Exchange Fellowship.¹⁷⁵ Murray was the Solicitor General in Victoria, Australia. Bedford was a visiting Erskine Fellow from the United States and a long time contributor to the Society's journal. There was no lecture in 1970 because of the national convention.

The topics for the lectures varied, but generally showed that the Society was focussing on accounting practice. Graham spoke on 'The Accountancy Profession in New Zealand: Problems, Trends and Issues of the 1960s'. Carrington titled his lecture 'Certainty or Realism in Accounting' and Rose spoke on 'The Accountant and Development: The Scope, The Challenge, The Risks'. Murray gave members an overview of 'Companies and the Law: the last decade in Australia'. Bedford and Sidebotham were the two lecturers who gave talks that came closest to theory in accounting. Bedford spoke on 'Information and Communication Aspects of Accounting Principles' and Sidebotham's talk was on 'A Tentative Theory of Financial Reporting for Social Corporations'. These topics most probably would have given listeners the most up-to-date information, as available in the journals published overseas. This certainly indicated that BRAP, when making recommendations to Council on the choice of lecturer, was looking overseas at what was being developed and researched and wishing to convey that information to NZSA members. However, despite BRAP considering research developments in external financial reporting in the United Kingdom, Australia, the United States and Canada and even though the visiting speakers for the research lectures were again from Australia and the United States, the Society continued to look to the United Kingdom for guidance on developments in accounting.

The research lectures followed a set format. The Council invited particular individuals to give a lecture, with their paper circulated in advance and commentators organised to speak on the paper. Members of the audience were then to participate in a general discussion on the paper.¹⁷⁶ All members of the NZSA had the opportunity to comment on the papers. Those who could not attend the lectures were able to read them when the Society's journal printed them. In this way, the Council fostered discussion and debate on accounting issues. The lectures appeared to be a success and many members attended. In some respects, research lectures were a form of

¹⁷⁵ Rose used the Fellowship in 1965 to study corporate and financial management in the United States.

¹⁷⁶ 'Invitation Lectures,' *The Accountants' Journal*, 41:1 (1962), p.7.

continuing education, because many members had the opportunity to hear about some of the latest ideas on a number of accounting topics. This could only enhance their knowledge of accountancy and perhaps promote discussion on these topics. At the same time, the lecturers, whether practising accountants or academic lecturers, had the opportunity to research a topic and further their work in particular areas.

The NZSA continued to encourage individual research. Carrington and M.O. Jager agreed with this approach but stressed that the NZSA needed to be the facilitator.¹⁷⁷ That the Society concurred was evident in 1968, when, at the suggestion of the Auckland branch of the Society, the Council approved another revival of the thesis competitions. Again, the intended themes for the competition were to be on New Zealand industry. The first topic was on the future of New Zealand exports and in 1969, accounting in the motel industry. Even though there were several years when they did not occur, over the decades from the beginning of thesis competitions in the 1930s, the NZSA covered most sectors of the New Zealand economy in the competition. Usually the topic was focused on how an entity should account for or present its business operations. The thesis competition was useful for the accounting profession in New Zealand. It allowed individual members of the NZSA to pursue research on a particular topic and disseminate their findings to other members as well as continuing to foster interest in research in accounting. The competition may also have fostered good relations between the accounting profession and industries in the various sectors of the New Zealand economy. Accounting methods within the sectors were scrutinised by those NZSA members keen to present a thesis and improvements could follow based on the winning entry.

Summer Schools were another way for members to improve their accounting skills. Branches organised these courses although they were usually held in the main centres. Accounting lecturers from the universities usually delivered the lectures. In effect, the schools were a form of continuing education that became more common and important in the 1960s. They provided an opportunity for members of the NZSA to come together and discuss topical issues and enabled individuals to learn from others. It is possible that in this way some members of the NZSA became interested in participating in NZSA activities, including belonging to groups and committees supporting BRAP activities.

¹⁷⁷ A.S. Carrington, 'The Next Thirty Years,' *The Accountants' Journal*, 40:8 (1962), p.256 and M.O. Jager, 'Accounting Principles: the eternal enigma?' *The Accountants' Journal*, 43:5 (1964), p.172.

Although the Council encouraged BRAP to produce guidelines for best practice, it was unable to provide the Board with the same level of resources as was available in the United States or the United Kingdom. The issue of appointing a full time research officer in the NZSA continued from previous decades, with the same result as before. At its first meeting in May 1961 BRAP, as had its predecessor, requested that the Council appoint a research officer.¹⁷⁸ Even though the NZSA had agreed at the annual meeting in 1960 to raise subscriptions to pay for a research officer, the Council did not respond. The pressure for research support continued. In 1962, an editorial in *The Accountants' Journal* noted that '...major progress (in research)...will not be achieved until... (the) appointment...of a member able to devote the major proportion of his time to the service of those committees requiring the collection, collation and evaluation of data.'¹⁷⁹ This time there was a response from the Council. At its meeting in March 1962 the Council approved in principle the idea of a research assistant and directed the Executive Committee to look at the financial implications of such a move.¹⁸⁰ These implications must have been significant because a year later the then President, Cox, noted that it was problems of finance and space that stopped the Council appointing a research assistant to BRAP.¹⁸¹ The Council did not appoint a full time research officer and the Board did not raise the issue again in its reports to the Council for the remainder of the decade, although the Council did attempt to provide some support. In 1966, the Council advertised for an Executive Assistant, one of whose tasks was to administer research activities.¹⁸² Support for BRAP remained negligible.

A notable feature of the NZSA's role in standard setting during the 1960s was the introduction of academics on BRAP. This move helped strengthen standard setting, evident in BRAP's development of TSAPs. The move also allowed the Society to show its determination to take seriously its role as standard setter. Even though this was done in a way that minimised costs, having academics on BRAP fits within Larson's model as an activity that strengthened accounting knowledge and

¹⁷⁸ Report of Research Meeting, 'Specialist Committees Meet,' *The Accountants' Journal*, 39:12 (1961), p.398.

¹⁷⁹ Editorial, 'The Society's Year,' *The Accountants' Journal*, 40:8 (1962), p.245.

¹⁸⁰ Report of Council Meeting 21 and 22 March 1962, *The Accountants' Journal*, 40:9 (1962), p.294.

¹⁸¹ D.S. Cox, 'President's Report to Members,' *The Accountants' Journal*, 41:8 (1963), p.260.

¹⁸² 'New Zealand Society of Accountants: Society Requires Executive Assistant,' *The Accountants' Journal*, 44:7 (1966), p.288.

reinforced the Society's claim to set accounting standards. The profession now looked to another way to strengthen that knowledge.

Strengthening Accounting Knowledge

The Board based its statements directly on ICAEW recommendations but there were pressures on the accounting profession in New Zealand and overseas to make these statements more rigorous and defensible.¹⁸³ Part of the problem in developing accounting standards was the practical nature of accounting. Much of the research in the United States, New Zealand and elsewhere was on issues raised through accounting practice and aimed at improving this practice. In financial reporting, for example, research focused on making company reports true and fair through the development of guidelines such as the statements of accounting practice issued by the NZSA.¹⁸⁴ These statements, even in the 1960s, had a practical basis and could be contradictory and ad hoc. There was pressure, therefore, from within the profession and from both the business community and government to determine a theoretical basis for the statements that removed inconsistencies.

A theoretical basis to accounting statements had to come from further research, which was why committees like the APPC were established. Indeed, many Presidents of the NZSA, in their annual reports to members referred to APPC under the subheading of Research.¹⁸⁵ Although the APPC did not have 'research' in its title, clearly the NZSA Council saw this committee, and its successor, BRAP, as research committees. The focus on research to produce a more encompassing and consistent set of accounting statements indicated the increasing influence of the American accounting profession on the development of accounting standards in New Zealand. The academics on BRAP played a significant part in this change in attitude. The NZSA's journal published the results of American research, as well as comments and analyses, critical or otherwise, by New Zealand academics on these American studies. Thus the New Zealand accountant was able to see the results of American research and evaluate its usefulness.¹⁸⁶

¹⁸³ Lee (2009), p.141.

¹⁸⁴ See, for example, A.R. Turnbull, 'Correspondence: Shortcomings of Financial Accounts,' *The Accountants' Journal*, 37:10 (1959), p.356.

¹⁸⁵ See, for example, N.B. Fippard, 'President's Address to the Annual General Meeting,' *The Accountants' Journal*, 40:8 (1962), p.249.

¹⁸⁶ See, for example, G.E. Lukas, 'American Professional Survey,' *The Accountants' Journal*, 39:2 (1961), p.49. Lukas listed the areas being studied by AICPA. See also J. Horrocks, 'A Revolution in

The development of accounting theory was more an American than a British phenomenon. For much of the 1960s there was little in the way of accounting research in England and it was not until the beginning of the 1970s that academic work began in earnest in the United Kingdom. In 1971, the University of Lancaster created a Chair of Accounting and an international research centre with E. Stamp as director.¹⁸⁷ Stamp was notable for the pressure he put on ICAEW late in the 1960s to adopt 'a set of rational, logical, self-consistent principles.'¹⁸⁸

The situation was different in the United States, where the AICPA studied accounting postulates and basic principles alongside practical issues, such as business combinations, accounting for income taxes, accounting for long term leases and accounting for non-profit organisations.¹⁸⁹ The AICPA attempted to deepen the level of research. The organisation intended that its research body the Accounting Principles Board create an underlying theory of accounting practice. Although, as will be seen below, the APB chose not to do this, the fact that the AICPA had this aim was a reflection of the pressure on the accounting profession, both by members and by a number of organisations outside the profession, to create an acceptable basis for accounting practice. For example, the SEC and the New York Stock Exchange were demanding that the accounting profession provide a theoretical underpinning for accounting practice to give authority and consistency to accounting statements. As a result of these pressures and directives, during the 1960s, the accounting profession in the United States led the world in the developments in accounting standards and encouraged comment from the profession elsewhere. In New Zealand, members of the Society were able to have an input into this research as when *The Accountants' Journal* published invitations from the APB welcoming comments from accountants and accounting organisations on proposed American accounting statements.¹⁹⁰ Whether the APB received input from outside the United States was unclear at the time.

The accounting profession in the United States as elsewhere also received legislative pressure for a broad theoretical base to accounting practice. The

Accounting,' *The Accountants' Journal*, 41:1 (1962), pp.50-52. Horrocks, analysing the changes in American accounting, urged the Institute to '... take note of changes in the United States' (p.50).

¹⁸⁷ Edwards (1989), p.241.

¹⁸⁸ Editorial, 'Uniformity- For and Against,' *The Accountants' Journal*, 48:5 (1969), p.177.

¹⁸⁹ N.M. Bedford, 'American Professional Survey,' *The Accountants' Journal*, 39:3 (1960), p.124.

¹⁹⁰ 'Additional Research Projects of the American Institute of Certified Public Accountants,' *The Accountants' Journal*, 39:6 (1961), p.192.

Companies Acts in a number of countries required that external financial reports give a true and fair view of the affairs of an entity. A set of systematic and comprehensive statements of accounting principles would best meet this requirement and many acknowledged the responsibility of the profession to define such statements and encourage their acceptance. An editorial in the NZSA's journal in 1962, for example, noted '...the community look to the accountants as virtual guarantors of the financial integrity of the concerns which they serve.'¹⁹¹ The Australian profession was more active than the New Zealand profession in responding to this social expectation. The AARF began researching accounting theory and, as in the United States, hoped to issue statements on accounting principles.¹⁹²

The American statements came at the beginning of the decade. In 1961, M. Moonitz, the Director of the AICPA's Accounting Research Division, released Accounting Research Study No 1 *The Basic Postulates of Accounting*. The following year Moonitz with R. Sprouse issued Accounting Research Study No 3, *A Tentative Set of Broad Accounting Principles for Business Enterprises*. These statements did not have formal approval from the APB but they were given the APB's qualified support.¹⁹³ However, the two studies alarmed many members of the AICPA because they were considered too far reaching. Consequently, while the American Institute's Accounting Research Division was producing its proposed theoretical basis to accounting standards, the APB followed the example of CAP and focused more on a case study basis to defining accounting standards, authorising a study by P. Grady, published as Accounting Research Study *Inventory of Generally Accepted Accounting Principles*. Insufficient though the response of the APB to these works may appear to be in achieving its aim of describing a comprehensive and coordinated set of accounting principles, the works by American accountants such as Moonitz, Sprouse, Vatter and Grady were nevertheless significant steps taken towards a theoretical basis for accounting practice.¹⁹⁴

¹⁹¹ Editorial, 'The Profession looks at Company Law,' *The Accountants' Journal*, 41:1 (1962), p.1.

¹⁹² 'Professional Developments Abroad: Spotlights on Australia,' *The Accountants' Journal*, 44:5 (1965), p.195.

¹⁹³ The two studies carried a statement from the APB. 'The Board believes... that while these studies are a valuable contribution to accounting thinking, they are too radically different from present generally accepted accounting principles for acceptance at this time.' Storey and Storey (1998), p.36.

¹⁹⁴ '...their valuable contributions to accounting thought increasingly have been recognised.' Storey and Storey (1998), p.36.

The weakness of the APB in its inability to produce authoritative statements became evident in 1962 when its Opinion No 2 Accounting for Investment Credit, which favoured the deferral method over the flow-through method, was overruled by the SEC. The SEC accepted both methods. The APB had to withdraw its opinion. In response, in 1964 the AICPA established the Seidman Committee to look at the status of APB Opinions and the state of accounting principles and practice in financial reporting. The AICPA adopted the recommendations of the Committee and gave APB Opinions the status of 'substantial authoritative support'. This meant that the Opinions were in effect compulsory. Authoritative status no longer came from generally accepted practice. In addition, the Seidman Committee urged that the APB determine a comprehensive set of basic concepts and accounting principles for financial reporting.

The response to this recommendation was the 1970 APB Statement No 4 Basic Concepts and Accounting Principles Underlying Financial Statements of Business Enterprises, which did not provide the much called for systematic theory. Instead, as Storey and Storey point out, '[g]enerally accepted accounting principles were a mixture of conventions, rules, procedures and detailed practices that were distilled from experience and identified as principles primarily by observing existing accounting practice.'¹⁹⁵ The reluctance of APB to define a conceptual framework for accounting standards was significant. That both CAP and APB failed to develop a theory of accounting indicates the difficulty the profession has had, and in many respects continues to have, in determining a framework of accounting that is easy to accept and understand.

Because of the practical nature of accounting standards, research and debate on the basic elements of accounting theory began with accounting practice. For example, the American Accounting Association's (AAA) approach was to determine the theoretical elements that underlay accounting practice and then use these to establish the rules of practice. This reflected the academic nature of AAA membership and received favourable comment elsewhere.¹⁹⁶ The AICPA's approach, on the other hand, was to take case studies and determine general rules from them. This reflected

¹⁹⁵ Ibid, p.41.

¹⁹⁶ Staff of the Department of Accountancy, University of Canterbury, 'Digest from Abroad,' *The Accountants' Journal*, 48:3 (1969), p.130. A.D. Barton in Australia, for example, favoured the American Accounting Association's approach to determining uniformity of accounting principles and practice.

the large public practice element in AICPA membership. For both organisations, an early issue was the determining and defining of accounting elements. What were principles, postulates, concepts and conventions? Was there a distinction between standards and rules? By the 1960s, there was some firming of opinion on these issues, particularly as to what were principles as distinct from rules and postulates, concepts and conventions.¹⁹⁷ But this was still not sufficient for significant advances in standard setting. In 1965, the then President of the New Zealand Society, T.G. Hull, noted that there had been little progress worldwide on research in accounting because research had not been defined and the profession had yet to determine its research objectives.¹⁹⁸

To ensure consistency in application, accounting principles needed more than accepted practice. Bedford saw a scientific approach to accounting research as important because it in effect was divorced from practice and allowed analysis of the purposes and uses of accounting data. He cautioned that the profession needed to realise that the development of a theory of accounting might contain elements that did not depend on particular practices.¹⁹⁹ D.S. Cox, reporting from an international congress on accounting education, repeated Moonitz' comments that the two extremes of research were based on existing practice, with the danger of an uncritical acceptance of practice, or studies of the fundamental assumptions of accounting practice with its disadvantage of becoming too abstract and obscure.²⁰⁰

Research in standard setting, whether at the extremes or not, was becoming increasingly significant for the profession as standard setter. The quality of accounting standards determined the reliability of external financial reporting and, as the profession had found, this affected the profession's reputation in the community. The profession therefore was committed to act professionally and responsibly and one way of doing so was to develop a theory of accounting to give more weight to accounting standards. An editorial in *The Accountants' Journal* in 1964, for example, emphasised the responsibility of the NZSA to give a lead in determining accounting standards.²⁰¹

¹⁹⁷ See, for example, 'American Institute's Research Projects: Overseas Suggestions Invited,' *The Accountants' Journal*, 39:2 (1960), p.50.

¹⁹⁸ T.G. Hull, 'President's Address to the 1965 Annual General Meeting,' *The Accountants' Journal*, 43:8 (1965), p.288.

¹⁹⁹ N.M. Bedford, 'American Professional Survey: The Nature of Accounting Research,' *The Accountants' Journal*, 40:4 (1961), pp.123-125.

²⁰⁰ D.S. Cox, 'International Conference on Accounting Education,' *The Accountants' Journal*, 41:4 (1962), p.111.

²⁰¹ Editorial, 'Improving Accounting Standards,' *The Accountants' Journal*, 43:2 (1964), p.41.

In 1968, K.C. Keown discussed accounting standards, emphasising the need for standards for the profession to have the confidence of the public and that the profession needed to write the standards, not government.²⁰² The NZSA continued observing what was happening overseas in accounting theory. Graham, in his editorial 'The Place of Theory in Accounting' listed the events in a number of countries to which the accounting profession was responding by reappraising '(its) basic tenets.' Jager wrote a comprehensive article on accounting principles, illustrating the American view of the debate.²⁰³ Also in this decade, Johnston began a regular column that summarised what was happening overseas in the area of financial accounting.²⁰⁴

New Zealand accountants commented on developments in, for example, the American APB, but that appeared to be the extent of local input to the debate. J. Horrocks, for example, reviewed the developments in American research in an article titled 'A Revolution in Accounting' in which he advised the NZSA that New Zealand needed not only to be aware of what was happening in the United States but also to make use of that information.²⁰⁵ Many articles in the Society's journal were reviews or reports from overseas. Even though New Zealand academics wrote articles providing a comprehensive and clear summary of the practices of accounting in New Zealand and elsewhere, there does not appear to have been any development of accounting thought as such in New Zealand. However, the academics on the Board were, through their participation in both BRAP and the *Journal*, making a difference to the quality of New Zealand accounting guidelines.

Accounting statements were also strengthened through improving international cooperation and coordination. In 1967, for example, the President of ICAEW suggested that representatives from major accounting organisations in Canada, the United States and Britain meet to begin studying accounting problems.²⁰⁶ This move was supported by other countries as a good first step to what many considered was a

²⁰² K.C. Keown, 'The Development of Accounting Standards around the World: Paper presented at the 5th Conference of Asian and Pacific Accountants 1968,' *The Accountants' Journal*, 46:7 (1968), p.272.

²⁰³ Editorial, 'The Place of Theory in Accounting,' *The Accountants' Journal*, 42:6 (1964), p.181 and Jager (1964), p.172.

²⁰⁴ T.R. Johnston, 'Financial Accounting Trends, Techniques and Pronouncements,' *The Accountants' Journal*, 43:9 (1965), pp.344-346. The contribution of academics to the Institute's journal began earlier. In the early 1950s Johnston, for example, wrote a regular column on current reading.

²⁰⁵ J. Horrocks, 'A Revolution in Accounting,' *The Accountants' Journal*, 41:2 (1962), p.50.

²⁰⁶ 'The Profession Abroad,' *The Accountants' Journal*, 45:8 (1967), p.336.

major development in the profession.²⁰⁷ New Zealand played a part in this development. Cowan for example, delivered a paper at the Ninth International Congress of Accountants in Paris, where he emphasised the need for broad agreement on accounting objectives and good communication. In his paper, Cowan recognised the advantage of international cooperation and suggested an independent International Bureau for Accounting Research, Information and Cooperation.²⁰⁸

Lee outlined how the accounting profession responded actively during the 1960s to public criticism of external financial reports. Accounting associations in many countries had research committees developing and issuing guidelines that were strengthened into standards. Academic researchers postulated a number of financial accounting theories to define and describe the validity and reliability of the standards and the profession was consolidating a coordinated international effort to address criticisms of accounting practice.²⁰⁹ The NZSA's activities during this period are evidence of the profession's application in drafting standards and participating in international events. The New Zealand profession was an observer rather than a participant in the debate on financial accounting theory but in a position to take advantage of any generally agreed theory.

Conclusion

This chapter described the steps the NZSA took during the 1960s to further develop accounting knowledge through BRAP, the successor to APPC, and placed the New Zealand moves in the context of what the accounting profession was doing overseas. The NZSA's efforts to develop accounting knowledge by creating TSAPs were similar to the efforts of the accounting profession elsewhere in standardising external financial reporting. These steps were evidence that the profession took its responsibilities as standard setter seriously. Standard setting was now a professional accounting activity.

It suggests that during the 1960s, professional accounting organisations such as the NZSA increased their research in and development of guidelines for external financial reporting, highlighting the growing importance of this field of accounting to

²⁰⁷ R.J. Vargo, 'Accountants and their Image- an International Perspective,' *The Accountants' Journal*, 46:11 (1968), p.454.

²⁰⁸ T.K. Cowan, 'The International Harmonisation of Accounting Principles,' *The Accountants' Journal*, 46:6 (1968), pp.206-210.

²⁰⁹ Lee (2009).

the profession and its professional reputation. Public criticism of the reliability and information usefulness of external financial reports was sufficiently strong for the accounting profession to respond by strengthening guidelines of good practice into standards. In part the profession was anxious to minimise state intervention in the process. Although, there were advantages to having state intervention the profession wanted state involvement on its terms. As Lee noted, state intervention was a threat to the profession's reputation and to its continued dominance of standard setting.²¹⁰ The profession's actions to make guidelines into the more regulatory standards suggests that it now regarded regulation of external financial reporting as a professional activity under its control and its responsibility to respond to calls for strengthening regulations.

The strength of the profession's determination to retain control of regulation was indicated in the efforts it put into finding an acceptable financial accounting theory. Although the NZSA was not part of this search, the New Zealand association did alter the composition of its new research committee, BRAP, to give a more academic focus to standard setting. The input of the newly created Chairs of Accounting in New Zealand universities greatly strengthened New Zealand accounting practice. The academics on the Board were in a better position to follow what was happening overseas in accounting research. The NZSA recognised the importance of research in developing better accounting guidelines but did not invest in research to the same extent as was happening in other countries, such as Australia and the United Kingdom. Cost remained a factor in the Society's decisions. At the end of the decade, the NZSA was still debating whether to appoint a research officer to support the work of BRAP.

Chapters five and six showed that the accounting profession, as evidenced by the New Zealand history, eventually accepted it had a responsibility in the public interest to extend accounting knowledge to regulate external financial reporting. As Muis observed, the profession was responding to demands for standardising external financial reporting, and being seen to do so.²¹¹ This chapter showed how the profession consolidated its role as standard setter, continuing to develop and strengthen accounting knowledge, illustrated by the changing nature of accounting standards.

²¹⁰ Lee (2009).

²¹¹ Muis (1977).

The profession was making the regulations stronger in the public interest but was also acting in self interest. This action, as Cooper and Deo and Walker observed, protected accounting's professional status.²¹² As a regulator, the profession raised its public profile and hence increased its professional reputation. Lee saw the profession maximising its use of accounting knowledge as part of its professionalisation process and this chapter supports his contention.²¹³ As the next chapter shows, these actions were ongoing.

²¹² Cooper and Deo (2005); Walker (2004).

²¹³ Lee (1991).

Chapter Eight: Becoming Less Tentative: The Board of Research and Publications 1970 to 1978

Introduction

This chapter analyses the actions of the NZSA as standard setter during the 1970s. The first section describes how the NZSA improved its development of accounting standards as the Board of Research and Publications (BRAP/Board) reacted to economic and other pressures for better regulation of external financial reporting. As the decade advanced, the Board became more certain in its actions and consolidated its role of standard maker, progressing from drafting Tentative Statements of Accounting Practice (TSAPs) to issuing Statements of Standard Accounting Practice (SSAPs). The international dimension in standard setting continued as New Zealand standards were usually based on standards developed overseas and the Board strengthened its links with Australian standard setters. Although no SSAP was without numerous redrafting, at first the Board issued many of the SSAPs with little disagreement.

The second section discusses how some SSAPs, such as equity accounting and accounting for inflation were more controversial, testing the Board's control of standard setting, showing its reliance on standard setting processes in use overseas and exposing the profession's vulnerability to entity cooperation. Sections three and four in this chapter discuss the effects of these challenges to the standards on the nature of the standards and the profession's relationship with the state.

Standard setting as a professional activity

A significant feature of the NZSA as standard setter that was becoming evident in the 1960s was the actions the profession took to maintain its dominance in regulating external financial reporting. It was in the profession's interest to have control of standard setting for the profession's reputation in part lay in public perception of the effectiveness of accounting standards.

One way the NZSA maintained control of the standard setting process was by trying to keep the process as robust as possible. By doing so, the association was acting professionally and being seen to do so. That the NZSA acted to maintain its dominance in standard setting indicated the profession's determination to maximise its professional reputation for there were no real challenges to the Society's claim as

standard setter. On the contrary, institutions such as the state and the New Zealand Stock Exchange had urged the NZSA, and not other institutions, to provide direction in external financial reporting on the grounds that accountants had the skills and knowledge to best regulate the reports.¹ However, as the 1970s unfolded this preference for the NZSA to set accounting standards did not prevent either group from commenting and threatening actions that forced responses from the NZSA.

BRAP was the NZSA's standard setting committee, making use of standards developed overseas and frequently reviewing the standard setting process. The composition of the Board during the 1970s, which remained much as it had been during the 1960s, helped the profession carry out its standard setting task in a professional manner. The Board had members from a variety of accounting backgrounds. Although there was no formal rule for composition, informally the Council was careful, as was BRAP, to ensure that public practitioners were well represented.² Standard setting was aimed at public practice. It was intended to improve accounting methods and NZSA members in public practice were those who applied the standards. But public practitioners did not dominate the Board. There were a variety of accountants on the Board. At any one time during the 1970s five of the 11 or 12 Board members were academics.³ The other Board members were either in public practice or in industry.⁴ However, the two Chairs during the decade, W.H. Morgan, 1968-1974 and R.C. Pope, 1975-1978, were public practitioners.⁵ Having a mix of types of members gave vigour to the Board's discussions and decision-making. Apart from the academics, the Board members were directly involved in external financial reporting in their regular jobs. The public practitioners were auditing public company reports and therefore able to bring current issues to the attention of the Board. Those Board members who were employed in industry were usually from the larger entities and were used to preparing external financial reports for their companies.

¹ Foots (1981).

² F. Devonport interview 19 May 2007.

³ T.K. Cowan (Otago), F.Devonport (Canterbury), D.G. Trow (Victoria), T.R. Johnston (Auckland). The University of Waikato was founded in 1964 and from 1971, G.J. Schmitt, who had been a member of a sub-committee of the Board, became its representative on the Board.

⁴ In 1974, for example, four of the twelve members were in public practice and three were directors or financial controllers in large New Zealand companies.

⁵ R.C. Pope was President of the Society in 1980.

The variety of public and industry representatives on the Board may explain why the Board did not have a system of formal consultation with other organisations interested in external financial reporting, such as public companies or the Stock Exchange. In a country as small as New Zealand, the NZSA had little difficulty communicating with other organisations. Membership of the Stock Exchange and NZSA overlapped. It was easy to meet others, whether at conferences or in professional organisations and hence like minded individuals were able to come together. Public companies were the clients of the larger accounting firms and partners in these firms were more likely to be on the Board than those from smaller accounting firms.⁶ These Board members would have had to communicate with their partners to ensure that they were aware of issues affecting their partners' clients. It is possible that this was how those entities could ensure that they exercised influence on the development of accounting standards. At the same time, the NZSA was ensuring consultation with public companies by encouraging members employed by those entities to be members of the Board.

Similarly, the NZSA maintained contact with the universities through academic membership on the Board. The academic representatives on the Board provided much needed research resources, up to date knowledge of research methods and the experience of applying and monitoring these methods. S.A. Zeff criticised the high proportion of academics on the Board, relative that is to comparable committees in other countries.⁷ Zeff noted that the Board's task was policy formation, which he doubted was a strength of the university personnel on the Board. Instead, Zeff saw that research for the Board was properly a function of personnel employed by the Society with the Board using the results of research in its deliberations. However, the Board had difficulty employing qualified staff to carry out research and needed the universities to undertake and coordinate its research. The number of academics on the Board may have reduced the Board's ability to act as a policy making body, but this assumes the academics were less able to formulate policy than the public accountants on the Board, and this is debatable. Academics brought valuable skills to the Board, including the ability to argue and write.⁸ There was also some movement of Board members from one area of accounting to another. T.K. Cowan, for example, had been

⁶ Frequently the Chair of the Stock Exchange was also a member of NZSA. Appointments of Chairs of the Stock Exchange were mentioned in *The Accountants' Journal*.

⁷ Zeff (1979), p.83.

⁸ D. Emanuel interview 14 July 2009.

in private practice for some years before moving to the University of Otago. Zeff's unease does not appear to have concerned Council. Academics remained on the Board. That Council in 1961 asked the newly appointed Professors of Accountancy to join the Board may have been a positive response to the resource problem. As New Zealanders, the professors knew members of the Society in other areas of accounting and worked with them on the Board's subcommittees.

The NZSA relied on academic research personnel for the next decade despite frequent requests from the Board to Council for additional support. The Council was sympathetic but employing a research officer was too expensive for the Society. Following further requests from the Board in 1971 and 1972 Council again promised to appoint an officer but did nothing until 1973 when it employed the first research officer, G.S. Palmer. Palmer provided much needed research assistance but it quickly became obvious to the Board that the work they required was too much for one person. In 1975 the Board recommended that Council appoint a second research officer. Palmer resigned at this time, so the Board was again without staff support. A year later, Council appointed A.R. Salole as research officer. Apart from 1976, from 1973 and until it was replaced, the Board enjoyed staff support.⁹ Salole remained with the NZSA until 1981. Although the Board now had research support, the amount of research work needed doing was still greater than the personnel available.

The Board did not rely on the NZSA for total financial support and tried to source other areas of funding for its research. In 1975, the Board established a small subcommittee to examine the possibility of the business community funding research.¹⁰ There is no record in the NZSA archives of this subcommittee ever meeting nor is there any mention of recommendations from it. The business community in New Zealand appears not to have provided a research fund for the Society. One can only speculate as to what form the Board would have wanted the funding to take and who they would have approached to provide the funds. There was also the question of what control businesses contributing to the funding would have expected to have over the use of any such funds and research. If the New Zealand accounting profession wanted to retain standard setting as a professional activity it needed to retain control of standard setting. Having the wider community

⁹ Report of meeting of the Board of Research and Publications 12 May 1972, *The Accountants' Journal*, 50:10 (1972), p.408.

¹⁰ Report of meeting of the Board of Research and Publications 15 May 1975, *The Accountants' Journal*, 54:7 (1975), p.276.

acknowledge that the profession was best placed to deliver quality accounting standards may have outweighed the limitations of finance and other resources.

By making use of standards developed overseas, the Board partially alleviated its research problems. The Board was able to adapt standards because accounting organisations in other western countries had research committees similar to the NZSA's Board and the process of standard development was common to them. From 1971, the ICAEW's Accounting Standards Steering Committee (ASSC) released exposure drafts concurrently with accounting organisations in Ireland and Scotland. In Australia, the Accountancy Research Foundation (ARF) drafted statements on accounting practice and the Canadian Institute of Chartered Accountants had an Accounting and Auditing Research Committee. The United States was different from other western countries in that for almost forty years the Securities Exchange Commission (SEC), a body outside the accounting associations, had monitored and approved accounting standards drafted by the American Institute of Certified Public Accountants' (AICPA) research committee, the Accounting Principles Board (APB).¹¹ All accounting organisations were researching, drafting and consulting members and others before issuing guidelines of good practice to their members. The accounting profession also took a step towards international cooperation in the development of standards when, in 1973, the International Accounting Standards Committee (IASC) was formed. The NZSA was well placed to benefit from this progress in standard setting. As D. Trow told participants at an accounting seminar, 'New Zealand is fortunate to be able to follow the best of developments overseas.'¹²

BRAP indeed followed overseas developments, replacing the Tentative Statements with Statements of Standard Accounting Practice (SSAP). The Board usually took promulgations from several countries including Britain, the United States and Australia, and adapted the standards and related releases to New Zealand conditions. The Board also began adapting standards the IASC was now issuing. The NZSA's SSAP-1 Disclosure of Accounting Policies, SSAP-4 Valuation and Presentation of Inventories in the context of the Historical Cost System and SSAP-7 Extraordinary Items and Prior Period Adjustments, for example, were standards created overseas. The precursor of SSAP-1 Disclosure of Accounting Policies was

¹¹ In 1973 the Accounting Principles Board (APB) was restructured and named the Financial Accounting Standards Board (FASB).

¹² D. Trow, *A Critical Review of Financial Reporting Standards in New Zealand*, (Summer School Paper, New Zealand Society of Accountants 1974), p.24.

TSAP-8 that the NZSA issued early in 1974. TSAP-8 came from a British SSAP, issued in 1971 and an American Opinion, issued in November 1972. Australia and South Africa had similar standards.¹³ When Council issued SSAP-1 Disclosure of Accounting Policies in November 1974, the statement was no longer based on these standards. Instead, the NZSA used the recently released IAS-1, the first standard issued by the international group, the IASC, rather than a redrafted TSAP-8. Disclosure of Accounting Policies was appropriate as the first SSAP issued by the NZSA because it provided a useful and general reference for subsequent SSAPs. Keenan was critical of BRAP's efforts to persuade members and entities to use these first few statements. He considered the weak wording of the preliminary text with its emphasis on members simply 'having regard to' the statements as weakening BRAP's role in providing collegiate regulation.¹⁴ But with the standards voluntary the NZSA was in no position to enforce compliance.

Council issued SSAP-4 Valuation and Presentation of Inventories in the context of the Historical Cost System in November 1975. This statement replaced TSAP-9 Valuation of Inventories for External Reporting, which was a virtual copy of the British Recommendations on Accounting Practice No 22. Like SSAP-1, SSAP-4 came from an international accounting standard rather than the original British standard. SSAP-4 was IAS-2, not a revised TSAP-9.¹⁵ However, SSAP-7: Extraordinary Items and Prior Period Adjustments, which Council issued in December 1977, did follow an earlier New Zealand draft, ED-12 Extraordinary Items and Prior Period Adjustments. ED-12 was a copy of a British standard, SSAP-6, issued in 1974.

That most New Zealand standards were either actual overseas standards or overseas standards altered slightly for local conditions shows that accounting practice in New Zealand was very similar to that in other western countries. The demands of investors for useful financial information and the determination of government and the accounting profession to ensure that this information was disclosed in external financial statements were the same in New Zealand as elsewhere. Even so, before the Board used a standard developed overseas, it studied that standard very carefully to ensure that it conformed to New Zealand legislation and other regulations. While this took time and some resources, it was still cheaper for the Board to do this than to

¹³ Zeff (1979), p.57.

¹⁴ Keenan (2000).

¹⁵ R.L. Challinor and D.M. Emanuel, 'A Commentary on SSAP-4,' *The Accountants' Journal*, 55:11 (1976), p.389.

develop its own standards. Cost remained a determining factor in the standard setting process.

The NZSA did not confine its contact with accounting organisations overseas to using standards first drafted in other countries. The NZSA was a member of international accounting bodies and, as discussed later in this chapter, encouraged its members to participate in the workings of those organisations. The Australian connection was also important for the NZSA and the New Zealand association maintained contact with the two major Australian accounting organisations. Indeed, one task of the NZSA's Research Officer, included in his job description, was to communicate with research officers in the Australian organisations. This directive showed the high level of cooperation between the accounting professions in New Zealand and Australia, which also reflected increasing cooperation and closer integration in trans-Tasman trade and business in the 1970s: from the signing of the New Zealand-Australian Free Trade Agreement (NAFTA) in 1965 to the Australia New Zealand Closer Economic Relations Trade Agreement (CER) in 1983.¹⁶

During the 1960s, representatives of the New Zealand and Australian accounting organisations conducted several meetings to discuss issues of interest to the profession and the Board expected the Society's research officer to continue this dialogue. Standard setting was not the only issue discussed by the two professions but it was a significant topic. Consequently Palmer's job was not just to provide researched material for the Board and to prepare exposure drafts which would include studying particular standards drafted overseas. Rather, the instruction to Palmer to liaise with Australia suggests that Council expected the Board to communicate actively with its Australian counterparts and work with them on the development of accounting standards, or at least to inform each other of developments in drafting standards.

The extent to which a New Zealand-Australia liaison occurred is not evident in the minutes of the Board. However, having the advantage of using the results of Australian research gave the Board greater depth in its work. In its deliberations the Board considered the standards issued by other accounting associations, especially in the United Kingdom, but increasingly the Board studied the standards issues by the research committees in the Australian Institute and Australian Society. As noted

¹⁶ P. Mein Smith, 'Trading Places,' in P. Mein Smith, P. Hempenstall and S. Goldfinch, *Remaking the Tasman World*, (Christchurch, 2008), pp. 98-121.

earlier in this chapter, the Board was doing this with standards released by accounting organisations elsewhere. What was special about the Australian standards was that they were already more closely aligned to New Zealand conditions than standards from Britain, the United States or Canada. New Zealand and Australia had similar economies and societies. Consequently, entities experienced similar conditions, including legislation and regulation. As a result of the close dialogue between the two professions, the accounting profession in each country was able to have input and comment on standards at the drafting stage in the other country. The continuing interaction between the accounting organisations in the two countries over several decades ensured that both countries were fully aware of what the other was doing in writing accounting standards.

The Board reviewed its work almost every year, indicating it knew the importance of continuing to improve the standard setting process. After the 1969 review of its operations, the Board decided to focus on planning and policy and to meet only once each year, delegating research and drafting to a number of subcommittees. In reality, this was not always possible. During the 1970s, the Board usually met twice each year, except for 1978 when the Board met four times, reflecting the impact of inflationary conditions, in New Zealand and elsewhere, on external financial reporting.

The Board's subcommittees met more frequently as the actual researching and drafting of standards was carried out by them with the support of specific project teams. The Board had five subcommittees for much of the decade focussing on Financial Accounting, Public Sector Accounting, Farm Accounting, Auditing and Management Accounting. The subcommittees organised study groups in some branches of the NZSA to help with drafting. They gave direction to the groups and were the first level of assessors of the draft standards, exposure drafts or tentative statements written by the groups. The study groups were usually in the larger cities where a university was established, and where there were sufficient members to volunteer to form a project team. Sometimes the subcommittees drafted standards themselves. Subcommittee and project members were not usually identified in the Society's year books or the *Journal* but it appears that they came from all areas of the profession, academic, public practitioners and commerce.¹⁷ The subcommittees had

¹⁷ The members of the sub-committees are listed in 1972 and 1979. See Appendix G.

the support of the research officer but in 1976, when there was no research officer, the Board gave permission to the Auditing and Financial Accounting subcommittees to employ technical assistance as and when they considered necessary. The Financial Accounting Subcommittee, busy investigating how to account for inflation, asked in August 1976 for a Wellington partner from one of the larger accounting firms to provide technical assistance part time.¹⁸

In its use of research staff and subcommittees, the Board maintained control over the process of developing accounting standards. The mix of members who were involved at all levels in the process indicates that no one section of the NZSA dominated the development of accounting standards. Indeed this variety may have made it possible for interested organisations outside the NZSA to have some input into the process, not just commenting on a prepared draft but also knowing someone who was on the Board or having an employee who was a Board member.

Late in 1974, the Board established a small subcommittee to again review its operations. The Board had issued four Tentative Statements of Accounting Practice (TSAP) between 1970 and 1974. They were on Depreciation of Fixed Assets, Equity Accounting, Disclosure of Accounting Policies and Valuation of Inventories for External Reporting. But urgent issues the Board now had to consider included inflation accounting, presentation of company balance sheets and profit and loss accounts, extraordinary and prior year items, accounting for income tax and depreciation of fixed assets and the review was needed to prioritise the issues. Following the review, the Board recommended and the Council approved that the Society produce exposure drafts (EDs) and then SSAPs, instead of TSAPs. Eight of the 12 Board members had to agree before an SSAP went to Council for approval.¹⁹

Between 1975 and 1979, the Board produced 12 exposure drafts, from which came the 11 SSAPs. For example, ED-13 Events Occurring After Balance Date became SSAP-5 in December 1976; ED-15 Materiality in Financial Statements became SSAP-6 in August 1977; ED-17 Information to be disclosed in Company Balance Sheets and Profit and Loss Accounts became SSAP-9 in August 1978; ED-19 Expenditure Carried Forward to Subsequent Accounting Periods became SSAP-11 in December 1979. Two of the 11 exposure drafts remained at the end of the decade,

¹⁸ Zeff (1979), p.64.

¹⁹ Report of meeting of the Council 26 February 1975, *The Accountants' Journal* 54:3 (1975), p.118.

ED-20 Accounting for Inter-period Allocation of Income Tax and ED-21 Accounting for Research and Development Activities.

The discussion around ED-17 and its subsequent standard, SSAP-9 Information to be Disclosed in Company Balance Sheets and Profit and Loss Accounts highlighted the diversity of views within the NZSA towards standardising external financial reports. Differing opinions were evident in the Council, for example, on whether to introduce SSAP-9 with several Council members reflecting the views of their clients and opposing the idea of disclosing sales figures that competitors could use. A majority of the Council ruled that the standard should be used and M. McCaw, then Chair of BRAP, persuaded entities to comply with the standard by visiting many of the major companies and convincing them to do so.

The decision to eliminate the TSAP step in the process of developing accounting standards was made for a number of reasons. First, the publication of an Exposure Draft allowed members to comment on a proposed standard, providing good consultation and feedback. Second, members were aware of what was happening overseas in standard setting, and the Board was adapting overseas standards, so there was less need for an additional step in the process of developing standards. Third and most important was that the removal of TSAPs indicated a change in attitude by the Society and hence its members towards accounting standards for external financial reports. Standard setting was now more acceptable as a professional activity and therefore NZSA members were more committed to implementing the standards and insisting on their use in external financial reporting. The auditors of external financial reports were now required by the Society to comment on entity departures from SSAPs, thus reinforcing the widespread use of these standards. The Board also suggested NZSA members use the term 'financial statements' instead of 'accounting reports' or 'financial reports' reflecting this changing view of external financial reporting and the increasingly greater use of these reports in economic decision-making.²⁰

Standard setting was now a high profile area for the accounting profession and the NZSA continually reviewed how it carried out this process. In 1975, following another review the Board abolished its Public Sector subcommittee because there was a national Public Sector Committee in the Society and the committee and

²⁰ Report of meeting of the Board of Research and Publications 7 and 8 December 1976, *The Accountants' Journal*, 56:1 (1977), p.38.

subcommittee overlapped in their work. In 1977, the Board restructured the subcommittees. These now had three to six members, with at least one member also being on the Board. This allowed for smaller working parties and a broader membership base contributing to developing accounting standards.

The Board made further changes in 1978 after reviewing the implementation of SSAPs in New Zealand, including adopting the method of drafting standards outlined in the Richardson Report, which were the findings of a government enquiry into accounting for inflation.²¹ However, these changes were not always well received by those using the standards. Entities were having some difficulty implementing new standards and found the timeframe too tight.²² In response, the Board expanded the variety of supplementary papers issued to members that helped implement the accounting standards. These papers included guidelines, technical practice aids and interpretations. The first Technical Practice Aid (TPA), issued in 1979, was on Dividends on Specified Preference Shares. TPAs were not standards and therefore only required a majority opinion from the Board because they gave advice and explanations on the standards.

Following a review by the Financial Accounting subcommittee in 1979, the Board proposed to review SSAPs every five years. Council approved the recommendations, which meant that SSAP-1 and SSAP-2 were to be reviewed immediately, and SSAP-3 and SSAP-4 by the end of that year. The Board established three review groups to begin the review. There were now only three, busy subcommittees of the Board: Auditing, Farm Accounting and Financial Accounting. By August 1979, the Board had issued seven Interpretations, two each on SSAP-1, 7 and 9 and one on SSAP-2.²³ These frequent reviews by the Board highlight the continually evolving nature of standard setting and standards. The process was changing as the profession firmed in its recognition of responsibility towards small investors and the need for consistency and clarity in external financial reports.

As part of the process of developing accounting standards, the Board consulted widely within the NZSA. The Board used the NZSA's journal to communicate with members, to keep them informed of the researching and drafting as

²¹ 'CCA Guidelines: GU-1: Supplementary Financial Statements in Terms of Current Costs and Values,' *The Accountants' Journal*, 58:1 (1979), p.15. The Richardson Report is discussed later in this chapter.

²² Report of meeting of the Council 16 October 1978, *The Accountants' Journal*, 57:11 (1978), p.409.

²³ 'Interpretations of SSAPs,' *The Accountants' Journal*, 58:7 (1979), p.272.

well as asking for comments on what it had drafted. For a few years at the beginning of the decade, the Board published detailed lists of the projects that each committee was researching. The information included the subject of the project, the type of publication the Board was intending to release to members for comment, the status of the project and the target date for completion of the next stage in each project.²⁴ In this way, the Society made certain that all members had the opportunity to comment on what the Board was doing. In addition, the Board often published in the *Accountants' Journal* a summary of submissions made by members and others to exposure drafts and sent redrafts of proposed standards to those who had made earlier submissions.

The Board did not require Council approval to issue Exposure Drafts and Research Bulletins. Although the NZSA's journal published the drafts, the drafts were also available for interested organisations outside the Society to study and comment on. There was no formal consultation process but there was wide consultation with interested parties. The Board controlled the process and what use it made of comments it received. Research Bulletins were different. Research Bulletins were intended to encourage discussion among Society members, rather than express radically new views on an accounting issue.²⁵ Bulletins carried the name of the author as well as any personal opinions and recommendations the author had on the accounting method in the proposed statement. A research bulletin went into greater depth than an accounting statement, and gave suggested guidelines for implementation.

The Board used the NZSA's journal to convey to members related information in addition to the draft standards. In 1974, Palmer began a Research column in the *Journal* that kept readers up-to-date on accounting research in New Zealand. When Palmer left the Society, the column ceased. However, the *Journal* continued to publish regular columns on issues related to external financial reporting. Board members did not necessarily write these columns, but the writers commented on the draft standards. From 1972 until 1975, 'Analyst' wrote a monthly column, 'Towards better financial reporting'. 'Analyst' reviewed the external financial reports of selected entities and identified areas where the Society could help the entities improve

²⁴ See, for example, *The Accountants' Journal*, 50:6 (1972), pp.235 and 236.

²⁵ G. Palmer, 'Accounting Research: Society Publications,' *The Accountants' Journal*, 54:1 (1975), p.31.

their reports. In April 1977, the *Journal* began a regular column on current cost accounting (CCA), 'Focus on CCA', which aimed to give readers the latest developments on CCA around the world and details of the literature being published on this topic. In July of that year, C.R. Hasseldine and W.G. Cox, from the University of Canterbury, began a bimonthly column on current financial reporting. Hasseldine and Cox were doing more than simply giving information to members on financial reporting. In their column, they applied the standards, analysing and commenting on the use of the standards by New Zealand entities in their external financial reports.

In this way, academic members of the NZSA contributed to the development of accounting standards through the *Journal* as well as through the Board. But the Board was also using the *Journal* to encourage comment from members. Critical articles on the standards indicate a robust level of debate within the NZSA. They show that the Board was open to criticism, which was useful not only to the Board but also to the Council in helping to gauge member reaction to the standards. This was important because at this time, standards were recommendations and not compulsory for members to follow, let alone non-member preparers of external financial reports, so the NZSA needed to maintain a rigorous system of consultation and feedback. The Board considered it important to stay alert to how useful the standards were in practice. One criticism of the NZSA's use of the Society's journal to officially release accounting standards was that not all members received the *Journal* because the Society's journal was not part of the annual membership. However, for those members who were in public practice and who did not subscribe to the *Journal*, the annual report in the NZSA's yearbook listed changes in accounting standards.

Even though the NZSA was the undisputed standard setter it was sensitive to likely responses to the standards from members and entities, for the Society relied on voluntary entity compliance with the standards. SSAP-1, for example, was not the first SSAP that Council considered. The Board's first draft SSAP to Council was on Depreciation of Fixed Assets. The method of depreciation recommended in the SSAP was not in common use in New Zealand and Council wished to ensure the success of the accounting standard process by allowing members to become used to receiving recommendations of good practice from the Society. Council sent this back to the

Board and asked that it recommend a less controversial standard as the first SSAP. Disclosure of Accounting Policies was the Board's response.²⁶

There were occasions when the Board consulted some members directly for comment when drafting standards. In 1973, the Board resolved that the Chair (Morgan) would contact the larger accounting firms in New Zealand and seek their support for the accounting standards produced.²⁷ The Board was anxious that members directly involved in using the standards reviewed them and made comments and suggestions on both exposure drafts and the tentative statements that the Board was issuing. The Board was also keen to see members using the standards. Interestingly, the Board referred to this direct consultation as 'research assistance', suggesting that the Board recognised it needed feedback from members on the draft standards. Morgan never met with the accounting firms. He reported at the next meeting of the Board that he had not contacted the accounting firms because Council was about to issue a Policy Statement on the standards. This, he felt, would produce the comments from the accounting firms that the Board was seeking.²⁸

At the time the Board decided to approach accounting firms directly, the Board also resolved to meet with the New Zealand Stock Exchange and the Institute of Directors and the Bankers' Association, following the Institute of Chartered Accountants of England and Wales (ICAEW), which had a process of meeting informally with other British institutions to debate British accounting standards. The Board's keenness to follow the system used by the ICAEW suggests that the British standard setting process remained important.

The aim of the Board meeting with the Stock Exchange, Directors' Institute and Bankers' Association was to explore how the Board could consult with those organisations when it was drafting standards.²⁹ Unlike the idea of meeting with the accounting firms, which never took place, there was a meeting later in 1973 between the Society and these other organisations. However, this appears to be the only time during the 1970s that the Board showed a direct and formal interest in consulting

²⁶ Report of meeting of the Board of Research and Publications 17 May 1973, *The Accountants' Journal*, 52:1 (1973), p.30.

²⁷ *Ibid.* The Board was intending to consult firms that were not large by international standards. Most accounting firms in New Zealand were based only in one or two cities. National firms were rare.

²⁸ Report of meeting of the Board of Research and Publications 20 September 1973, *The Accountants' Journal*, 52:5 (1973), p.194.

²⁹ Report of meeting of the Board of Research and Publications 17 May 1973, *The Accountants' Journal*, 52:1 (1973), p.30.

outside the Society. There was no alteration to the process of developing accounting standards to include a step of consulting formally with organisations outside the NZSA. It is difficult therefore to determine whether such consultations would have been effective.

The Board was aware of the importance of having other organisations agreeing to the standards and thus ensuring that entities followed the standards. Why the Board did not directly and formally consult institutions, such as the Stock Exchange, and include them in its process of developing accounting standards is not evident from Board minutes. It may be that the Board considered that it was responsible for developing accounting standards, acting in the public interest, accountable to the public, and therefore it was producing the best standards possible and defensible. That is, the Board was self-regulating, as seen in its reviews of the standard setting process, including how consultations were carried out. Possibly, the Board saw the standards as guidelines for members of the Society and they were being consulted. Equally it may be that informal consultation was deemed sufficient by the Board in a country as small as New Zealand where entity responses to standards were easily conveyed.

BRAP's seemingly contradictory attitudes towards consulting within and outside the profession may be the consequence of a problem the profession had in balancing consultation with maintaining control of standard setting. If the profession was acting only in self interest and obtaining power from control of standard setting it would not be concerned about the consequences of its actions or interested in the reactions of groups outside the profession. Yet the minutes of BRAP meetings show that the Board was interested in entity reaction to and hence compliance with standards it was issuing; that the Board wanted to consult the larger New Zealand accounting firms; and that the Board was interested in responses from the Stock Exchange and the Bankers' Institute. Although it appears that a distinction should be made between consultation within the NZSA and consultation with other groups, the reality was that accounting firms would know how their clients were reacting to exposure drafts and the final standards.

That the profession generally was sensitive to the issue of consultation is evident not only in BRAP's decision in 1973 to set up a formal consultation process but also in such actions as the ICAEW doing so at this time and a plenary committee of the British Accounting Standards Committee later in the decade having 21 non-

accounting organisations represented.³⁰ In 1973, the Canadian Institute also restructured its research committee so groups from outside the profession were represented on committees but the Canadian situation was different again from the British system. The Canadian accounting profession has the authority to both draft and issue compulsory standards. They balance control with consultation through the research committees.

No matter which standard setting process is used the accounting profession must balance consultation and control for in this way the profession will have increased entity compliance and possibly a reduced threat of state intervention. Where consultation was deemed insufficient by observers the profession's ability to self-regulate was brought into question and researchers have shown this questioning produced a variety of responses from the profession. Fogarty *et al.* as well as Byington and Sutton highlighted occasions in the United States where promises of action were not carried out and Hines showed that the American profession made claims that it had the knowledge to produce conceptual frameworks to retain user confidence in standards.³¹ Maintaining control of standard setting also opened the profession to claims of regulatory capture as Cooper and Deo and Walker have illustrated.³² Several theories have been proposed to explain these actions, or inactions, by the profession. Peltzman used public choice theory and Watts and Zimmerman used empirical positivist theory to explain the actions of groups such as the profession focused on self interest rather than outcomes.³³ Tweedie and Whittington in their study of the inflation debate that occupied the profession later in the 1970s agreed that self interest was a factor in the actions of the profession in standard setting, but they pointed to other factors including international and economic events that played a role, as did the dissemination of ideas in the standard setting environment. In the case of inflation accounting they also indicated self interest motives in other groups involved, including entities and the state.³⁴

To the accounting profession standard setting was an accounting professional activity and as such the profession controlled the standard setting process. However, this did not preclude the accounting associations from having a standard setting

³⁰ Rutherford (2007),p.120.

³¹ Fogarty et al (1997); Byington and Sutton (1991); Hines (1989).

³² Cooper and Deo (2005); Walker (2001).

³³ Peltzman (1976); Watts and Zimmerman (1986).

³⁴ Tweedie and Whittington (1984).

process that involved consulting interested parties. For associations like the NZSA this was through interested parties outside the profession commenting at the exposure draft stage rather than in a formal consultation process or having non-accountants on the standard setting board. However, even with a strong standard drafting process and encouraging comments on exposure drafts, the profession, in New Zealand and elsewhere, encountered challenges to its control of standard setting following changes in the economic environment.

Challenges to the profession's role in standard setting

The 1970s were characterised by economic and other events that impacted on the NZSA's standard setting process. Inflation affected a number of countries, not just New Zealand, leading to a number of government enquiries and altering the profession-state relationship. This decade also saw the revision of the New Zealand Companies Act which raised questions about the obligations of entities to shareholders and other interested groups. At the same time, the NZSA dealt with several issues connected with accounting standards including the effects of equity accounting, depreciation and what should be disclosed in the financial statements. The risk that if the NZSA did not develop standards to cope with issues such as inflation, depreciation and equity accounting, government might do so, and this threat at a time when the standards were not compulsory, influenced the NZSA's endeavours in standard setting. One response was to help users understand external financial reports, which the NZSA did through the media.

Equity accounting and other issues

Equity accounting was an issue early in the decade and the circumstances under which the Board drafted SSAP-2 shows the determination of the NZSA to maintain independence and exclusivity in developing accounting standards, even while being pressured by organisations outside the NZSA. The Registrar of Companies wrote to the Board in 1972 about the use of equity accounting principles in the consolidated accounts of three large New Zealand entities, Fletcher Challenge Holdings Ltd, Wattie Industries Ltd and Brierley Investments Ltd, having concluded that equity accounting did not come within the Companies Act. Equity accounting was about how these entities showed the financial affairs of associated companies,

that is, entities in which they had significant influence.³⁵ Both the Registrar and the NZSA Council were alert to the possibility that information in the financial reports was misleading for investors because there were no guidelines for the use of equity accounting. Council asked the Board to produce a draft statement dealing with equity accounting.

Early in 1973, the Stock Exchange contacted the NZSA asking that the two organisations issue a joint statement on the treatment of associated companies, but the Society preferred to produce a statement itself.³⁶ The Board already had an exposure draft. T.R. Johnston and F.V. Noble-Beasley on the Financial Accounting Subcommittee had prepared the draft for the subcommittee based largely on the United Kingdom SSAP on equity accounting. The Board circulated the exposure draft among a few NZSA members in December 1972 for comment, after which the subcommittee gave a revised draft to the Board. In July 1973, the Board issued TSAP-7 Accounting for Associated Companies. One significant difference between TSAP-7 and comparable standards in both the United Kingdom and United States was that the New Zealand standard referred in general terms to the materiality of the relevant items in the financial statements rather than giving a specific definition of what was an associated company. To help members understand TSAP-7 better, the 1973 research lecture, delivered by L.N. Ross, was on ‘Accounting Problems that arise from Business Combinations.’³⁷ Ross’ talk focused on SSAP-2 Accounting for Associated Companies (Equity Accounting), the standard that replaced TSAP-7 in 1974.³⁸

The Stock Exchange was not content to wait for the Board’s standard. One month before the Board issued TSAP-7 the Stock Exchange told the Society it was going to issue an interim statement on equity accounting, until the Society produced a standard. It is possible that the Stock Exchange wanted a more definite and more binding standard, because until some months before the NZSA issued SSAP-2 in December 1974, the Stock Exchange was still considering issuing guidelines to its members.³⁹ Equity accounting remained an issue in New Zealand and Australia was experiencing similar problems. Gordon and Morris’s study of the equity issue in

³⁵ Report of Board meeting 28 November 1972, *The Accountants’ Journal*, 51:6 (1973), p.255.

³⁶ Zeff (1979), p.56.

³⁷ Ross was a member of BRAP in 1965. Source: Appendix G.

³⁸ The other two lectures were G.J. Schmitt, ‘The Company Tax Provision- its significance in evaluating performance and prospects,’ in 1971 and J.G. Russell, ‘The Accountant’s Contribution to Resource Management’ in 1974. Source: Box 26, Library, Head Office ICANZ, Wellington.

³⁹ Zeff (1979), p.57.

Australia found that because of entity reactions to the accounting profession's attempts to have external financial reports provide more transparency in entity activities, conceptual difficulties slowed resolution of the problem.⁴⁰ In New Zealand SSAP-2 was not solving the problem so the Board drafted ED-16 Consolidated Financial Statements in February 1977 and in August 1978 issued SSAP-8 Consolidated Financial Statements.

Accounting for depreciation of fixed assets was more of an internal problem for the NZSA. The Society did not face pressure from other organisations as with equity accounting but the profession had concerns about the effectiveness of accounting for depreciation. Fixed assets were a significant item in external financial reporting and the depreciation methods used by an entity affected the value of those assets. The argument over straight line depreciation versus diminishing value depreciation complicated the development and acceptance of the Board's standard on depreciation, SSAP-3 Depreciation of Fixed Assets. Unlike most countries, New Zealand entities generally followed tax practice and used diminishing value depreciation rather than straight line depreciation. Recognising that straight line depreciation was possibly a better indicator of decline in service potential, the subcommittees' drafts recommended this method of depreciation. In February 1968, TSAP-4 Depreciation of Fixed Assets applied straight line depreciation for freehold buildings and leases. R-101 Depreciation of Fixed Assets, written by Cowan and Noble-Beasley, and issued in February 1971, was in effect a reissue of TSAP-4. In November 1972, the Board issued TSAP-6 Depreciation of Fixed Assets, written by Noble-Beasley, who recommended a wider application of straight line depreciation. The Board sent this draft to Council with a recommendation that the implementation of the standard remain optional for members. This recommendation probably reflected the realisation by the Board that the standard advocated a wider application of straight line depreciation than New Zealand entities used, and would therefore require changes in entity processing of external financial reports. As anticipated, when the Board in August 1975 issued SSAP-3 Depreciation of Fixed Assets, there were many complaints from entities and auditors about the short time between the release of the standard and when it came into effect.

⁴⁰ I. Gordon and R.D. Morris, 'The Equity Accounting Saga in Australia: Cyclical Standard Setting,' *Abacus* 32:2 (1996), pp.153-177.

The NZSA succeeded in having entities change their method of preparation of the reports with SSAP-3 but SSAP-9 Information to be disclosed in Company Balance Sheets and Profit and Loss Accounts was a Board standard influenced by entities. The Board issued SSAP-9 in 1978, following ED-17, issued in 1977. Hasseldine and Cox reviewed SSAP-9 and its use by New Zealand companies.⁴¹ Hasseldine and Cox were critical of the difference in disclosure between the exposure draft and the standard. They noted that the exposure draft provided clearer disclosure requirements and they suggested that a 'big business lobby' had succeeded in getting the Board to change its requirements. Entities were not happy with the disclosure requirements of ED-17, particularly the requirement for them to disclose sales, which they felt would give their competitors unfair information. P.M. McCaw, a member of the Board and former Chair, visited a number of larger companies prior to the release of SSAP-9 explaining the standard, showing that company fears were unfounded, and contributing significantly to the successful implementation of the standard.⁴²

Of the remaining standards the Board issued during the 1970s SSAP-10 Statement of Changes in Financial Position caused most discussion among members. SSAP-10 was based on the ICAEW's SSAP-7.⁴³ The Board released this standard in April 1977 as ED-18 Statement of Source and Application of Funds and immediately received criticism as some members of the Society felt the terminology was unclear, especially as regards the funds to which the SSAP applied.⁴⁴

Discussion and disagreement within the profession was a positive sign indicating the seriousness with which members of the NZSA treated standards. K.R. Macdonald, Secretary of the NZSA, reminded members that their first responsibility was 'to interpret society's view about the accountability of corporate enterprises and then to translate that into information which could be conveyed in financial terms.'⁴⁵

⁴¹ C.R. Hasseldine and W.G. Cox, 'Financial Reporting Review: SSAP-9: Information to be disclosed in Company Balance Sheets and Profit and Loss Accounts,' *The Accountants' Journal*, 58:1 (1979), p.23.

⁴² D. Trow interview 15 July 2009.

⁴³ Report of meeting of the Board of Research and Publications 19 September 1974, *The Accountants' Journal*, 53:4 (1974), p.161.

⁴⁴ C.H. Notley and J.E. Owers, 'Cooking the Books using Sources: a commentary on ED-18,' *The Accountants' Journal*, 56:8 (1977), p.293; C.R. Latta, 'Correspondence: SSAP-10 and the NZ Society of Accountants,' *The Accountants' Journal*, 58:11 (1979), p.418.

⁴⁵ K.R. Macdonald, commentary on M.S. Armstrong 'The Responsibilities of the Accounting Profession for Financial Reporting Standards,' a paper presented at the Technical Session of the 1975 National Convention in Dunedin.

The New Zealand accounting profession was now well established as the country's standard setter with the NZSA, the professional accounting organisation, not only drafting standards such as SSAP-10 but also continuing to make submissions to government inquiries on issues related to accounting. The Board, for example, made a presentation to the Macarthur Committee, which was reviewing the Companies Act. The Macarthur Report, submitted to Government early in 1973, led to the Companies Amendment Act 1973. Although the Report largely followed the recommendations of the British Jenkins Report the Committee recommended that the New Zealand Companies Act adopt aspects of Australian Companies legislation in preference to United Kingdom Companies legislation because the Australian legislation was better suited to New Zealand.⁴⁶ The Macarthur Report also stressed the importance of disclosure in external financial reports.⁴⁷ The NZSA agreed. In its presentation to the Macarthur Committee the NZSA suggested the creation of a Companies Commission to oversee company implementation of legislation and monitor entity financial reporting. The Government responded with the passing of the 1979 Securities Act, establishing the New Zealand Securities Commission to ensure entity compliance with legislation. The NZSA was closely involved in the new Commission and several Commissioners were members of the NZSA. From the beginning, the Commission made it clear that its task was monitoring entity implementation of accounting standards, not writing standards. That, the Securities Commission considered, was the responsibility of the NZSA.⁴⁸ The roles of the Securities Commission and the NZSA were clear and complementary and have remained so.

Accounting for inflation

Accounting for inflation was possibly the greatest issue that confronted the accounting profession during the 1970s, altering the relationship between the profession and the state and making the role of the profession in standard setting less

⁴⁶ For example, the method of officially managing a company in receivership and having the Supreme Court appoint inspectors to investigate the affairs of a company. See 'Company Law Revision,' *The Accountants' Journal*, 51:11 (1973), p.466.

⁴⁷ A summary and overview of the Macarthur Committee report is in *The Accountants' Journal*, 51:11 (1973), p.466. In general the Committee accepted the recommendations of the NZSA submission. For Institute members, W.L. Farrands wrote four articles published in the *Journal* between August and December 1973, giving details of the changes to the Companies Act.

⁴⁸ D.C. Jamieson, 'The Securities Commission: Its Structure, Role and Functions: An Interview with the Chairman,' *The Accountants' Journal*, 58:4 (1979), p.134.

clear. Although it tried, the NZSA, along with the accounting profession in several countries was unable to produce an accounting method of dealing with inflation that satisfied entities and governments. The profession's failure adversely affected its professional reputation and contributed significantly to the intervention of government in the standard setting process.

During the 1970s inflation was a major concern in New Zealand and other economies, including the United States, the United Kingdom and Australia. Price increases from 1967 in international manufactured and processed commodities and the oil price rises beginning in 1973 caused high inflation in many western countries. The effects of inflation were felt in many areas of these economies as the value of wages fell and unemployment rose. Governments responded to public pressure for solutions to what was an international problem by establishing committees to study and report on inflation, such as the Sandilands Committee in the United Kingdom in 1975 and, in New Zealand in 1976, the Richardson Committee.⁴⁹

Even before these committees sat, the accounting profession was attempting to account for inflation. Rapidly increasing inflation led to much debate within the profession on the relative effectiveness of valuation methods to account for inflation and thus ensure that external financial reports remained true and correct. Although the New Zealand Board did not produce an SSAP on accounting for inflation in this decade, the issue of inflation occupied a significant portion of the Board's time. Inflation was affecting reported company profits. Companies wanted to maximise profits, but unless they accounted for inflation appropriately, their reported profits were misleading.⁵⁰ The accounting profession tried to alleviate this problem by establishing a method of valuation that produced external financial reports that were useful to users. The Board went to great efforts to canvas members' opinions, especially on ED-10 and ED-14 and to see what accounting organisations overseas were doing in order to account for inflation, especially in the United Kingdom and Australia. Although there was no formal system of consultation with outside organisations the Board disseminated its exposure drafts widely. Among other groups, entities were able to respond to the drafts.

⁴⁹ The Committee, headed by I.L.M. Richardson, a Wellington lawyer, along with an economist and three NZSA members (H.M. Titter, P.S. Stannard and R.P. Kellaway), was tasked with examining studies on inflation accounting, to assess methods of accounting for inflation and to make recommendations to the Minister of Finance. Source: *Report of the Committee of Inquiry into Inflation Accounting*, (Wellington, 1977).

⁵⁰ Government indicated that taxation would not be affected by how inflation was accounted for.

Three methods of accounting for inflation were debated: historic cost (HC), current cost accounting (CCA) and current purchasing power (CPP). In 1975, the Board issued ED-10 Accounting for Changes in the Purchasing Power of Money. This exposure draft, based largely on that of the British Accounting Standards Committee, as was the Australian Accounting Foundation's draft, recommended CPP. The New Zealand Board came under a great deal of criticism for this draft because of the valuation method chosen.⁵¹ Some NZSA members were critical of the British influence on the draft, its corresponding lack of response to New Zealand conditions and the perceived lack of consultation with other organisations.⁵² Baskerville found that while those she interviewed '[saw CPP] as being seriously deficient,....many agreed that it was a step in the right direction.'⁵³ In Britain, the accounting organisations were experiencing opposition to their standard. Not all members in the ICAEW and other professional bodies accepted the standard and a small English accounting firm led a strong campaign to have the standard removed.⁵⁴

Accounting for inflation was complicated and caused much debate and research within the accounting profession. In New Zealand, Cowan, for example, discussed the background to research on inflation accounting in a number of countries and evaluated a number of suggested methodologies, concluding that there were many difficulties.⁵⁵ Cowan was not satisfied with the Board's approach to inflation accounting and he was at odds with other academics on the Board. Less controversial was the research at the University of Waikato which in 1976 established a Project on Inflation Accounting. This project, which was funded by the government and by public companies, provided additional material for entity and professional decision-making as it studied the effects of using different methods of inflation accounting in external financial reports.⁵⁶

⁵¹ B. Popoff, 'Accounting for Changes in the Purchasing Power of Money,' *The Accountants' Journal*, 54:5 (1975), pp.165-169. Popoff favoured recognition of replacement cost in income items and asset valuation.

⁵² B.A. Waite, 'Correspondence: Accounting for changes in the purchasing power of money,' *The Accountants' Journal*, 54:5 (1975), p.201. Waite was Controller, Ivan Watkins Dow Ltd in New Plymouth.

⁵³ Baskerville (1994), p.28.

⁵⁴ K.R. Mitchell, 'London Letter: Falling Standards,' *The Accountants' Journal*, 57:1 (1978), pp.27 and 28.

⁵⁵ T.K. Cowan, 'ED-14: Accounting in terms of Current Costs and Values: Objectives, Objections, Obstacles,' *The Accountants' Journal*, 55:10 (1976), pp.351-359.

⁵⁶ G.J. Schmitt, 'Inflation Accounting Research: The University of Waikato Project,' *The Accountants' Journal*, 55:3 (1976), pp.94-97. From this study the university developed indices for accounting for inflation on various items.

In 1976, the Board, responding to submissions, withdrew ED-10 and issued ED-14 Accounting in Terms of Current Costs and Values. Cowan called the new draft 'revolutionary'.⁵⁷ This exposure draft followed CCA instead of CPP and incorporated the recommendations of a number of government committees of inquiry, including the British Sandilands and New Zealand Richardson Reports. The Richardson Committee, taking into account the outcome of the Sandilands investigation, recommended using CCA with operating profit based on the current cost of resources used in earning revenue. The Committee also suggested that gains and losses on monetary assets be included when determining net income.⁵⁸ The Richardson Committee's recommendations had an impact on the Board's deliberations for the Committee's report supported entities rather than the profession in how to account for inflation. This instance of government intervention was to be the first step of many as the profession-state relationship changed during the last quarter of the century.

The NZSA accepted the Committee's recommendations, for this would ensure entity compliance. The Society now helped members implement CCA. In April 1977 the *Journal* introduced a new column 'Focus on CCA' and there were a number of articles published at this time summarising the debate on how to account for inflation.⁵⁹ In 1978, Council of the NZSA created a CCA committee to draft guidelines entities could use when preparing supplementary statements in their external financial reports. Council intended these statements to show the effects of inflation on the value of goods and services and company profits. Late in 1978, the Board issued GU-1 CCA Guidelines, which were to apply for accounting periods on or after 1 April 1979. The University of Waikato's Inflation Accounting Research Project also published a CCA Working Manual to assist those preparing the financial statements. The NZSA Council established a working party, which included two members who were employees in Government Departments, to monitor the implementation of the guidelines and to suggest ways to improve accounting for inflation. Thus, by the end of the decade the NZSA, as had the profession in the United Kingdom and Australia, had changed from recommending CPP to using CCA

⁵⁷ Cowan (1976), p.351.

⁵⁸ I. Stewart, 'The Richardson Committee Recommendations: an analysis and an alternative,' *The Accountants' Journal*, 56:2 (1977), p.45.

⁵⁹ A.J. Wakefield, 'CCA,' *The Accountants' Journal*, 56:1 (1977), pp.1-11. Wakefield summarised what different countries had done about inflation accounting. R. Mathews presented a paper at the Society's Summer Convention comparing the British, New Zealand and Australian Reports on Inflation.

to account for changes in the value of goods and services.⁶⁰ Tweedie and Whittington noted that this movement from CPP to CCA was ‘initiated typically by some form of government intervention,’ such as the government committees of inquiry in New Zealand and the United Kingdom.⁶¹ The Board still controlled the system for the production of accounting standards but while it was sensitive to pressure from government and from businesses its reputation for producing effective solutions to accounting problems was somewhat diminished. Furthermore, as noted in the next chapter, accounting for inflation continued to cause problems for the profession.

How New Zealand dealt with the issue of accounting for inflation was similar to how the United Kingdom and Australia acted. The New Zealand profession and those who commented on ED-10 also preferred to be guided by what was done overseas. As a result, the accounting profession in New Zealand was influenced by the actions of the British profession just as the New Zealand Government’s recommendations were in part a reflection of the report from the British Government’s committee of inquiry. Hence the pattern noticed by Tweedie and Whittington, who concluded that there were a number of factors responsible for how the profession generally handled the inflation issue, including economic events and international influences but that two factors arose from within the profession, the influence of academic theories on inflation and the self interest of the profession, such as when it advocated CPP. The two academics considered that the initial preference of the profession for CPP stemmed from a ‘desire to avoid putting further responsibility on the professional accountant.’⁶² In the end, as Tweedie and Whittington observed, the factors that determined the path taken on accounting for inflation were outside the control of the accounting profession. This is evident in New Zealand, where a determining factor for the demise of CCA-1 was the Muldoon National Government’s refusal to allow CCA for tax reporting. The issue of accounting for inflation highlighted the extent to which the profession in various countries cooperated, shared ideas and learnt from each other, but the issue also brought into prominence the vulnerability of the accounting profession’s control of standard setting. One issue highlighted in the debates over standards for equity accounting and accounting for inflation was the enforcement of standards.

⁶⁰ N.G. Rueschhoff, ‘The Acceptance of International Accounting Standards in North America,’ *The Accountants’ Journal*, 56:4 (1977), pp.144-145.

⁶¹ Tweedie and Whittington (1984), p.315.

⁶² *Ibid*, p.309.

Mandatory standards and the profession-state relationship

In general, the accounting profession, as exemplified by the NZSA, was able to control the development of accounting standards and respond to recommendations from government and entities, but although SSAPs were generally accepted their use was voluntary. Early in the decade, auditing standards were not mandatory either but they soon were. Making auditing standards in New Zealand compulsory for members in 1974 reflected a broad change in attitude by entities, government and the profession towards enforcement of standards in general. However, the profession found it easier to decide on auditing standards than accounting standards because auditing standards were more technical and therefore more easily implemented. There was also wider agreement on what auditing standards should be.

Making accounting standards mandatory was a contentious issue. During the 1960s, the Board frequently asked the Council to give Board statements greater authority, but the Council declined to do so. In 1973, two Board members, Trow and Pope, reviewed the standard enforcing systems in the United Kingdom, United States, Australia, Canada and South Africa, showing again the extent to which New Zealand as a standard setter considered what the profession was doing overseas in its deliberations.⁶³ Trow and Pope presented their findings to the Board, recommending compliance by NZSA members. Consequently, at the same time as it agreed to make auditing standards compulsory, the Council agreed to require that NZSA members responsible for preparing and auditing financial statements must comply with accounting standards. This move brought the New Zealand accounting profession into line with the United Kingdom and Australia where standards also were only compulsory for members of professional accounting associations.

Some NZSA members were not satisfied with this and they pressed for wider compliance with standards as in the United States where standards were mandatory and had legislative backing enforcing compliance.⁶⁴ As a compromise measure, when the Board issued SSAP-1 Disclosure of Accounting Policies, in 1974, the Foreword to the SSAP stated 'all significant departures from accounting standards made by the

⁶³ Report of meeting of the Board of Research and Publications 17 May 1973, *The Accountants' Journal*, 52:1 (1973), p.31.

⁶⁴ J.G. Tuck, 'Accounting Standards,' their formulation and enforcement in annual reports to shareholders,' *The Accountants' Journal*, 51:10 (1973), pp.405-409.

directors... should be referred to in the auditor's report.'⁶⁵ This was not sufficient for some members. Dyce, at that time Secretary of Transport (Nelson) Holdings Limited, urged the Society to police and '(take) disciplinary action...where the standards were not met.'⁶⁶ The Board's compromise was also not enough for some non-members. One financial writer in the NBR was critical of the NZSA for not insisting on compliance for all New Zealand entities.⁶⁷

The accounting profession was in a dilemma because making standards compulsory removed the independence and authority of the individual professional.⁶⁸ But this was not as much of an issue as it once was because the new directive from the Council made standards compulsory for members. Accounting standards with legislative backing would also increase pressure on the profession to widen its consultation process. On the other hand, with the standards not mandatory the profession needed other measures to ensure entities used the standards when preparing their reports. The profession had sought to do this by improving the quality of accounting practice and disclosure of financial information through reducing alternative accounting methods and requiring external financial reports to disclose the accounting principles used and any departures from standard practices.⁶⁹

The Society was aware of the consequences of losing control over this process, for, as the issues of equity accounting and accounting for inflation showed, the profession's authority as standard setter was being challenged. At this stage, the NZSA was determined to retain control of standard setting. It was 'strongly opposed [to] the setting up of any other body or public service agency charged with the power to prescribe accounting standards.'⁷⁰ However, this stance did not remove the problem of enforcing the use of standards and some members of the profession were questioning the wisdom of retaining possession of standard setting.

⁶⁵ Editorial, 'SSAP-1 Disclosure of Accounting Policies,' *The Accountants' Journal*, 53:4 (1974), p.142.

⁶⁶ R.G.V. Dyce, 'Published Accounts: Are New Zealand Standards Good Enough?' *The Accountants' Journal*, 53:5 (1974), pp.169-172.

⁶⁷ Editorial, 'Open up the books,' *The National Business Review*, 5 March 1973, p.4.

⁶⁸ C.C. Alma, 'Financial Reporting Standards in New Zealand,' *The Accountants' Journal*, 52:4 (1973), pp.126-128. See also G.C. Edgar, responding to a paper on international accounting standards delivered at the 8th Conference of Asian and Pacific Accountants, in *The Accountants' Journal*, 55:10 (1976), p.345.

⁶⁹ L.N. Ross, 'President's Address to the 1973 Annual General Meeting,' *The Accountants' Journal*, 52:4 (1973), p.149.

⁷⁰ I.S. Beattie, 'President's Report to the Annual Meeting October 1976,' *The Accountants' Journal*, 55:10 (1976), p.368.

Although the New Zealand accounting profession, through the NZSA, considered that it had the right and responsibility to develop accounting standards, not everyone within the profession agreed that the accounting profession had to have exclusive control of the development of accounting standards. A visiting American accountant, J.W. Buckley, saw this as a ‘provincial’ attitude by accountants, implying that fighting to maintain dominance in developing accounting standards was an old fashioned idea and bringing back into focus the issue of the level of consultation in the standard setting process. Buckley called for a common search for better accounting standards, involving a wider section of society, especially those with an interest in the quality of external financial reports. He hoped that this would help to remove what he called ‘the unrealistic nature of the standards as they stood at this time.’⁷¹

Some members of the profession, as public practitioners, did find some standards unrealistic and they and their clients had difficulty accepting them. To these members, unrealistic meant accounting methods not in common practice or methods that made it difficult for entities to present themselves in the external financial reports in the best possible light. NZSA members, for example, accepted SSAP-4 Valuation and Presentation of Inventories in the Context of the Historic Cost System more easily than the first three SSAPs because it was closest to current accounting practice in a number of countries other than New Zealand, including England and Wales.⁷² A Board survey of members in 1975 showed that some entities were already following SSAP-1.⁷³ The University of Waikato’s project team analysed company reports a year later and agreed that there was substantial compliance with SSAP-1. However, the project team found less compliance with SSAP-2, as would be expected of a standard produced following strong pressure from the Stock Exchange for the NZSA to draft a standard that curbed the creative accounting of some larger New Zealand entities.⁷⁴ The profession could expect the level of entity compliance to be determined in part by the extent to which profits were affected when the standards were applied. While SSAPs were only recommended guidelines for those not members of the NZSA there

⁷¹ J.W. Buckley, ‘Accounting in a changing world,’ Address given to the Canterbury Branch of the Society, *The Accountants’ Journal*, 55:4 (1976), pp.85-90.

⁷² Challinor and Emanuel (1976), p.389.

⁷³ Report of meeting of the Board of Research and Publications 15 May 1975, *The Accountants’ Journal*, 54:7 (1975), p.276.

⁷⁴ A.S. Grant, C.S. Greenlees and B.J. Old, ‘Public Company Reporting Practices,’ *The Accountants’ Journal*, 55:11 (1976), p.400; Zeff (1979).

was a limit to the extent public accountants could ensure the application of the standards in external financial reports. Hence, the closer a standard was to current practice the more acceptable it was to entities.

Events during the 1970s also illustrated that not only whether, but how entities complied with the standards was a problem. New Zealand entities varied in their use of the standards. Some entities were treating the standards as the maximum level of disclosure in their reports but the accounting profession wanted the standards to be the minimum required of entities.⁷⁵ There were other complications associated with the timing of releases of the standards as a result of the process the NZSA used in standard setting. Complying with SSAP-3 Depreciation of Fixed Assets, for example, was problematic for the Society and its members. In the three years between the 1972 tentative statement and the issuing of SSAP-3 in 1975 some members had forgotten the direction the tentative statement took and were not ready to implement SSAP-3. There was also only a matter of months from when the Board issued SSAP-3 until its implementation.⁷⁶ As a result, the University of Waikato project team in 1976 found that only two thirds of entities surveyed complied with SSAP-3.⁷⁷ The situation did improve. Within two years, most entities listed on the stock exchange were applying SSAP-3 and SSAP-7.⁷⁸ Except for a few prominent companies, most entities were also using SSAP-8 Consolidated Financial Statements within the year after the Board issued the standard in 1978.⁷⁹

Accounting standards remained voluntary for non-members but the NZSA continued to encourage all entities to use the standards when preparing external financial reports. The NZSA took steps to make sure that members knew about the standards and how to use them. The Professional Standards Committee, which was established in 1973 to guide members in implementing SSAPs, noted that Branches were holding seminars on SSAP-1 and SSAP-2. The standards were now more than

⁷⁵ B.A. Christmas, 'SSAP-1 in Retrospect,' *The Accountants' Journal*, 58:4 (1979), p.135.

⁷⁶ D.M. Emanuel, 'A Commentary on SSAP-3 Depreciation of Fixed Assets,' *The Accountants' Journal*, 55:7 (1976), p.240.

⁷⁷ Grant, Greenlees and Old (1976), p.400.

⁷⁸ G.C. Bush, 'Depreciation on Fixed Assets: a review of the Application of SSAP-3 in Published Financial Statements,' *The Accountants' Journal*, 57:1 (1978), pp.12-15; C.R. Hasseldine and W.G. Cox, 'Financial Reporting Review,' *The Accountants' Journal*, 57:5 (1978), p.175. ⁷⁸ F. Devonport and C.R. Hasseldine, 'The Criteria for Reporting Extraordinary Items,' *The Accountants' Journal*, 58:9 (1979), p.343. There appeared to be no consistency of use of SSAP-7 in a survey of 76 New Zealand companies.

⁷⁹ C.R. Hasseldine and W.G. Cox, 'Financial Reporting Review: SSAP-8 Consolidated Financial Statements,' *The Accountants' Journal*, 58:7 (1979), p.268.

guides and tentative statements. They firmed and confirmed accounting practice that enabled entities to produce a true and fair view in their external financial reports. Thus the NZSA urged other organisations to support the adoption of the accounting standards. In 1975, Council 'noted with appreciation the decision of the Stock Exchange of New Zealand to establish a listing requirement embodying support for SSAPs issued by the Society.'⁸⁰ The Stock Exchange reinforced the Explanatory Foreword to SSAPs published by Council in 1979 that reiterated the 1974 statement that auditors were required to use the standards and ensure that any client not doing so was to disclose this in the external financial statements as a material departure from standards.⁸¹

The standard setting process and the nature of accounting standards

Producing accounting standards was becoming more complex. Along with accounting organisations overseas, the NZSA regularly reviewed its procedures for developing accounting standards because there were problems of consistency in the application of accounting standards as well as problems resulting from events in the wider economy such as accounting for inflation and equity accounting. The British and American accounting professions were also having difficulty developing accounting standards and reviewing the process.⁸² In Australia, the New South Wales government was dissatisfied with the inconsistency of accounting standards produced by the AARF.⁸³ The government there established the Accounting Standards Review Committee with Professor Chambers as Chair to review the standard setting process. In 1978, the AARF was restructured, acquiring full time researchers to produce accounting standards. In 1976, the ICAEW commissioned a review of British standard setting that became *The Corporate Report*. The study that was to have a far reaching effect on the future of standard setting worldwide was the 1971 review by the AICPA in the United States. Following widespread criticism of the quality of accounting standards the AICPA established the Wheat and Trueblood Committees to examine standard setting in the United States. The Wheat Committee recommended significant changes to the standard setting process and in 1972, the AICPA adopted the Wheat

⁸⁰ Meeting of the Council 26 February 1975, *The Accountants' Journal*, 54:3 (1975), p.117.

⁸¹ 'Explanatory Foreword to SSAPs,' *The Accountants' Journal*, 58:4 (1979), p.139.

⁸² W.S. Gilkison, 'Why issue statements on accounting principles?' *The Accountants' Journal*, 55:8 (1976), p.300.

⁸³ The AARF was unable to get quality leadership. Source: A.W. Graham, 'The Profession in Australia: Problems and Developments Part II,' *The Accountants' Journal*, 50:9 (1972), pp.358-364.

Committee recommendations, disestablishing the APB and creating the Financial Accounting Standards Board (FASB). In 1974 the Trueblood Committee delivered its recommendations on the standards themselves. This committee's recommendations had major implications for the development of a theoretical framework to underpin accounting standards in the United States and elsewhere. The key concepts in the recommendations became a model for frameworks, enhancing consistency within standards and providing justification for their development. Thus the accounting profession in the United States was active in dealing with the challenges to the profession continuing to dominate standard setting even though, in the United States, standard setting was officially outside the profession.

The American profession led the world in considering and debating accounting theory. Their work on accounting theory interested the academics on the NZSA's Board and individual Board members began to apply first principles when drafting accounting standards.⁸⁴ Developing financial accounting theory indicated that the accounting profession was moving towards a more cohesive and coherent approach to the evolution of accounting standards. As a result of the sharing and adapting of standards around the world, the accounting profession in many countries including New Zealand was at basically the same stage in the development of standard setting. However, although the procedure for setting accounting standards was similar in many countries there were still many differences. Terminology was one such area. 'Principles' in the United States were 'standards' in the United Kingdom, and 'practice' in Australia and New Zealand. International accounting organisations such as the IASC began to overcome these difficulties by collating standards and accounting practices from a number of countries and use this information to develop international accounting standards (IAS).

BRAP had little difficulty making use of the international accounting standards. In 1977, the Board recommended, and Council approved, the incorporation of IAS within SSAPs.⁸⁵ Council also asked the Professional Standards Committee to assist members to comply with international accounting standards 'in the same way as that committee presently seeks compliance with SSAPs issued by the Society.'⁸⁶ These instructions of Council indicated the willingness of the NZSA to use IASs as

⁸⁴ D. Macdonald interview 14 July 2009.

⁸⁵ Report of meeting of the Board of Research and Publications 30 September 1977, *The Accountants' Journal*, 56:5 (1977), p.442.

⁸⁶ Report of meeting of the Council 26 February 1975, *The Accountants' Journal*, 54:3 (1975), p.117.

the bases of SSAPs even though the process the IASC used raised questions about the quality of their standards. The IASC relied on consensus when developing a standard. To reach general agreement among member countries, an international standard often included a number of alternative methods of accounting practice, going against a desired characteristic of a strong, consistent standard.

The NZSA was not content merely to adapt IAS for New Zealand purposes. The Society encouraged members to participate in international standard setting which allowed the NZSA to have good communication with the profession overseas and contribute to the international standard setting process. In 1974, New Zealand became an associate member of IASC. A year later, G.C. Edgar (NZSA President 1979 and on the Society's Accounting Research and Standards Board in 1980 and 1981) became a member of the IASC Research and Development Committee. In 1976, New Zealand joined another international accounting organisation, the International Federation of Accountants (IFAC). A. Mann (NZSA President 1976) became the permanent New Zealand representative on the IFAC Council and Vice President in 1979.

In New Zealand, some members of the NZSA remained dissatisfied with how the Board operated. C. Notley criticised the Board for its increasing bureaucracy, claiming that the Board was creating ad hoc accounting standards and not evaluating their usefulness.⁸⁷ Notley's criticism echoed that of a number of accounting professionals around the world about the standard setting process in their countries. At the annual meeting of the Society in 1979, the President, A.L. Fleury, responding to criticisms of the standard setting process, supported the work of the Board and stressed how the quality of accounting standards had improved.⁸⁸ It was criticisms such as these that led some members of the profession to continue to try to produce a theoretical basis to the development of accounting standards. Only in this way could standards become consistent and less complex.

The profession focused on standard setting and helping entities preparing external financial statements but the Board was also aware of its responsibility to educate the users of the statements. When it called a meeting in 1973 to discuss including organisations outside the NZSA in the process of developing accounting

⁸⁷ C.H. Notley, 'Correspondence: Accounting Standards,' *The Accountants' Journal*, 58:11 (1979), p.418.

⁸⁸ A.L. Fleury, 'The President's Address to the 1979 Annual General Meeting,' *The Accountants' Journal*, 58:11 (1979), p.412.

standards, the Board invited the financial writers from the newspapers to attend. The NZSA recognised that it was important to help the public understand external financial reports, and thus help users of financial reports in their decision-making. The Society saw it could do this through the financial sections of the press. The public would benefit from discussions on company financial reports in the media. The way the NZSA decided to improve communication between the Society and the media was by seminars, where members of the Society and newspaper reporters discussed topical accounting issues and studied external financial reports. The Society also hoped to improve the relationship between itself and the print media in particular.

The NZSA's Public Relations Committee held seminars in 1971 and 1973, similar to those the American accounting profession had conducted.⁸⁹ The seminars helped strengthen the relationship between the NZSA and financial writers in the press. In 1970 and 1971, A. Sturman, the Financial Editor of the *Auckland Star* wrote articles on external financial reporting for the NZSA's journal.⁹⁰ Individuals such as Sturman made it possible for the Society to organise its seminars with the financial writers from the newspapers. Certainly, the reports of the seminars in the *Journal* indicate the success of the seminars. Zeff commented on the importance of this relationship between the media and the Society and encouraged the Society to continue the dialogue, but this did not happen.⁹¹ Why this was so may be due to individual financial writers and Board members or because the Board became involved in controversy with public companies and the government over accounting for inflation to the detriment of developments in other areas of standard setting. How successful the Society was in developing accounting standards that helped users to understand external financial reports remained open to question. A study at Victoria University in 1977, for example, showed that there was a low level of understanding by users of external financial reports.⁹² The challenges to the profession and its role as standard setter remained.

⁸⁹ Report of meeting of the Board of Research and Publications 12 May 1972, *The Accountants' Journal*, 50:10 (1972), p.408.

⁹⁰ A. Sturman, 'What the Financial Analyst Seeks,' *The Accountants' Journal*, 50:2 (1971), pp.46-48.

⁹¹ Zeff (1979), p.67.

⁹² P. Healy, 'Can You Understand the Footnotes to Financial Statements?' *The Accountants' Journal*, 56:6 (1977), p.219.

Conclusion

This chapter reviewed the second decade of BRAP, the standards it issued and major issues and factors influencing its decisions, in order to see how the NZSA acted as standard setter in changing economic circumstances and the effect of these on the professional status of accountants. The chapter found that the accounting profession, as evidenced by the NZSA and its standard setting board, acted to maintain control of standard setting. But the profession found economic events and other factors challenged the effectiveness of the standards.

During the 1970s the NZSA remained the dominant standard setter in New Zealand, firming the standard setting process and issuing statements of standard accounting practice that were no longer tentative. As part of the process BRAP consulted widely at the exposure draft stage, helped by the support of a research officer and the work of a number of subcommittees. Consultation was informal and personal rather than formal and official, in contrast to the process in Australia and the United Kingdom.⁹³ However, the profession's dominance as standard setter was not secure. Questioning of the consultation process in New Zealand and elsewhere, coupled with problems accounting for inflation among other issues, challenged the effectiveness of and hence compliance with the standards. The profession in New Zealand, as elsewhere, responded in several ways. Allen found that the Australian profession, for example, was in a continuous process of negotiation and renegotiation of status with interested groups, from entities to the state.⁹⁴ Another response, evident in New Zealand, was to establish the authority of the standards by using standards created overseas. Consequently the international influence in standard setting became stronger during this time, especially the Society's links with Australia, which occurred within a broader New Zealand-Australian economic environment.⁹⁵ Yet another response was the efforts of the profession, led by the United States, to find a theoretical framework for the standards.

These challenges also altered the profession-state relationship as government in New Zealand and elsewhere responded to public pressure for more reliable external financial reporting.⁹⁶ This chapter showed that the profession debated the need for

⁹³ Flanigan *et al.* (1994) compared standard setting in the US, UK and Australia; Graham (1972) described the Australian standard setting process; Zeff (2003) summarised the process in the US.

⁹⁴ Allen (1991).

⁹⁵ Mein Smith *et al.* (2008).

⁹⁶ Cooper *et al.* (1988).

legislative authority for standards and the implications of this for its status as standard setter.⁹⁷ However the vulnerability of the accounting profession to obtaining entity cooperation in complying with standards led to increasing pressure from within and outside the profession to have government backing for standards. The increasingly regulatory nature of the standards, a consequence of the profession's response to compliance and related issues, added more pressure, for the more directive the standards were the more the profession's reputation was at stake.

This thesis argues that how the NZSA operated as standard setter during the 1970s shows that the profession continued to consider standard setting a professional activity. As is evident in this chapter, the NZSA was continually reviewing its standard setting process, was sensitive to criticisms of standards and concerned about entity compliance with the standards to the extent it was debating whether state intervention was a solution. But the effectiveness of standard setting as a means of professionalisation, and maintaining professional reputation, was under increasing pressure. Continuing challenges to the profession's authority as standard setter and its responses to these challenges were to affect the course of standard setting in the remaining decades of the twentieth century and raise questions about standard setting as a professional activity.

⁹⁷ Craig (1984).

Chapter Nine: ‘Satisfying but challenging Times’: The Accounting Research and Standards Board 1979 to 1991

Introduction

This chapter discusses the events of the 1980s in the history of standard setting in New Zealand, their causes and consequences. These events were contradictory and overlapping, as the 1980s produced a complex mix of developments in standard setting in New Zealand. For those developing the standards in the NZSA this was ‘an exciting period in financial reporting’ since the NZSA continued to work proactively as New Zealand’s standard setter.¹ However, there were members in the Society concerned with the effectiveness of those standards and the seemingly cavalier attitude that entities held about presenting a true and fair view in their external reports. ‘The people didn’t really have much respect for [accounting].’² The Society’s enthusiasm as standard setter was supported and tempered by a series of political and economic events that placed further pressure on the Society’s dominance in, and the public’s perception of, its independence in setting accounting standards.

The first two sections of this chapter consider the role of the Accounting Research and Standards Board (ARSB), the NZSA’s new standard setting board, and the effectiveness of its standard setting process. The third section of the chapter discusses some of the major limitations experienced by the Board as standard setter. Major challenges for the NZSA during the 1980s, such as the problem of enforcing compliance with the standards, became more urgent as New Zealand experienced strong economic pressures. There were adverse economic conditions at the beginning of the decade, including a large balance of payments deficit and a currency crisis. Then the country moved to a more liberal, open economy following the radical reforms of the Lange Labour Government (1984-1989) and the Society contributed to a major restructuring of public sector accounting, as explained in the fourth section of this chapter.³ As the fifth section of this chapter shows, during this time the international theme in standard setting continued as the NZSA participated in the growing international harmonisation of accounting standards.

¹ T. van Zijl interview 16 July 2009.

² S. Todd interview 4 June 2009.

³ ‘Rogernomics’ is the term usually given to the sweeping neo-classical economic changes made by the 1984-1990 Labour Government and continued by the 1990-1997 National-led Government. Sir Roger Douglas was the Minister of Finance in the Lange Labour Government (1984-1989).

The Accounting Research and Standards Board

While the ARSB focused on policy, leaving research to its committees, resourcing for research remained a concern. The accounting profession in New Zealand knew that it needed to develop standards that would ensure that external financial reports gave a true and fair view of an entity's affairs and which emphasised the substance of transactions over their legal form.⁴ The ARSB, as had BRAP, worked to make it possible for a user of external financial reports to be able to compare an entity's activities in one year with those the following year to decide 'is this company better off than last year'?⁵ The ARSB aimed to improve the quality of external financial reporting by promulgating definitive statements which defined what items an entity must disclose in its external financial reports, and how they should be presented.

The new Board's terms of reference highlighted two areas of interest for the profession: consultation and promoting research. When it established the ARSB in 1979, the Council directed the ARSB to consult with groups outside the profession as part of its standard setting process. Council hoped that widening consultation would make the application of accounting standards more acceptable to preparers and users of external financial reports. This in turn would assist with compliance with the standards, which was a concern of the profession. The Board was also directed to develop accounting standards for the public sector.⁶

The ARSB's role was to provide for the promotion, direction and effectiveness of accounting research in New Zealand: hence the retention of 'research' in its title. In a reversal from twenty years before, when the APPC coordinated research but was careful not to proclaim that in its title, research was in the ARSB's title but it did not conduct research itself. The ARSB differed from both the APPC and BRAP in the increasing importance of subcommittees. The ARSB was more of a policy making body and its subcommittees, especially the Financial Accounting Subcommittee, did the necessary research and drafting of standards. The Board reviewed and amended the draft standards where necessary, helped in part by the Chairs of the subcommittees being members of the ARSB. Being less hands on may explain the composition of the Board.

⁴ D. Tweedie, 'Giving meaning to financial accounts,' *The Accountants' Journal*, 64:8 (1985), pp.4-6.

⁵ Editorial, 'The Front Page: Financial Reporting- according to Tony Frankham,' *The Accountants' Journal*, 65:1 (1986), p.5.

⁶ Report of October Council meeting, *The Accountants' Journal*, 59:11 (1980), p.434.

In one respect there was no change in Board membership from BRAP. Public practitioners continued to dominate the NZSA's standard setting committees with at least half the members of the Board at any one time coming from public accounting firms. These practitioners were usually from the largest of the public accounting firms because in general they were able to give the time to the Board's affairs that accountants in smaller public accounting firms or working in other areas of the economy could not. The public accounting firms recognised their responsibility to contribute to the advancement of the profession. However, during the 1980s, these firms changed their attitude towards employees spending time on developing accounting standards. The public accounting firms, especially the larger ones, became more business oriented and less tolerant of employees doing non-chargeable work.⁷ So much so, that by 1992 the President of the NZSA noted '[i]t may be said of us that we were once professionals in business and this has changed to the point where we are now business people from a profession.'⁸

The accounting profession seemed to be moving away from its public professional obligations of giving time and expertise to the community, and instead becoming more interested in maximising profit and giving priority to paying clients.⁹ Velayutham and Rahman attributed this shift in outlook to a similar and broader shift towards a market oriented society in New Zealand. They noted that the same change in outlook was occurring in Australia, where, as in New Zealand, there was the influence of increasing globalisation of trade and the opening of many sectors in the two economies to competition from elsewhere. In 1985, one of the Horizon 2000 Committee recommendations adopted by the Council was that accounting firms be allowed to advertise their services.¹⁰ This was a significant change in practice. Professional accounting firms had not advertised previously because this was seen as going against the culture of professional cooperation and solidarity. The increasing commercialisation of the profession was therefore not unusual; rather it reflected changes in the New Zealand society, economy and government. The trend towards corporatisation was impelled in part by the influence of the Lange Labour

⁷ The same change was occurring in Australia. Clarke and Dean (2007), p.75, noted a similar conclusion in a 2002 report from an Australian Federal Parliament Committee.

⁸ T. Burn, 'Editorial,' *The Accountants' Journal*, 71:3 (1992), p.1.

⁹ Velayutham and Rahman (2000) suggested the accounting profession was moving towards market differentiation.

¹⁰ The Horizon 2000 project was a major initiative of the NZSA that comprehensively reviewed Society activities and member attitudes and views.

Government's neo-liberal policies on commercial activities and the increasing influence of globalisation and multinational corporations, including within the profession itself, multinational accounting firms.

The increasingly business oriented view of the profession could be discerned in the Horizon 2000 Committee recommendations. The recommendations reflected the views of NZSA members who were less inclined to see standard setting as fulfilling the public interest and providing accounting information in external financial reports useful for decision-making and more inclined to see the process as an opportunity to enhance their credibility as professionals. R.A. Anderson (NZSA President 1984) was 'confident that we have what it takes to accommodate a degree of commercialism to meet the needs of a consumer-oriented society- without losing our professionalism.'¹¹ His optimism was borne out to the extent that although it was possible that some skilled public practitioners were not able to go on the Board because of their firm's work policies, there were some public practitioners still willing and able to give their time to standard setting and the ARSB.

At this time, the ARSB became more of a policy making body. This was apparent in the changing composition of the Board, which had fewer academics than were on BRAP. In its first year, there were three university staff on the ARSB but this number declined during the 1980s. From 1980 to 1983, there were two university staff on the ARSB but from 1984 to 1991 only one member was an academic.¹² The decrease in numbers did not mean that the universities were less interested in either accounting research or the development of accounting standards. Rather, it seems that the academics moved from the Board to the subcommittees where the research and drafting was taking place.¹³ This shift may support Zeff's contention in 1979 that BRAP should concentrate on policy and have fewer academic members because their expertise was research. The NZSA does not appear to have consciously decided to reduce the number of academic Board members. Academics on the Board moved to the subcommittees or out of standard setting at their own request.¹⁴ In effect, the subcommittees 'replaced' the academics on the Board. In doing so, the Board widened its research base, because the academics in the subcommittees were not just

¹¹ R.A. Anderson, 'President's Report,' *75th Anniversary Annual Report and Accounts* (Wellington, NZSA, 1985), p.6.

¹² D. Trow, Victoria University.

¹³ Appendix H.

¹⁴ F. Devonport interview 15 November 2009.

university professors. Other members of the University Departments of Accountancy, such as M.E. Bradbury, became involved in standard setting. The university staff, like their fellow Board members in public practice, needed to be committed and interested in developing accounting standards because they too were under pressure to concentrate on their university research and teaching, particularly if they sought promotion. The time spent on developing accounting standards was time that was not spent on writing articles and doing other academic research.¹⁵

As with BRAP, at any one time the ARSB had two or three members from industry. For the most part these members were from the larger New Zealand companies who were aware of the potential benefits for private sector entities to be on the Board. During the 1980s, at various times there were financial controllers or managers from Feltex, Fletcher Holdings, Command Services Group, Challenge Meats, Pareto Management Consultants and Goodman, Fielder, Wattie. For many of these entities the advantage of having representation on the Board was that they could influence standard setting and hence how they reported their activities in the external financial reports. The extent of their influence is open to question. Looking back at his time on the Board, J. Hagen concluded that ‘there hasn’t been sufficient advocacy for what commercial people are trying to do.’¹⁶ He considered that at times the standards forced entities to report in a manner that did not produce a true and fair view of their activities. There were no public servants on the Board at the beginning of the decade but from 1985 the Deputy Auditor General, J.W. Cameron, was a Board member and in 1991 I.D. Ball, from the Treasury, joined the Board. The presence of government personnel on the Board paralleled the development of public sector accounting standards.

The NZSA maintained a robust process in developing accounting standards, in part because of the variety of types of accountants on the Board and its subcommittees. It comprised ‘just a good blend of different people [providing]...a range of different perspectives.’¹⁷ The Financial Accounting Subcommittee (FAC) was the ARSB’s committee that drafted most of the accounting standards.¹⁸ Membership of FAC was similar to that of BRAP. In 1980, two of the seven committee members were academics and four were in public practice. In 1987 and

¹⁵ T. van Zijl interview 16 July 2009.

¹⁶ J. Hagen interview 4 June 2009.

¹⁷ K. Simpkins interview 15 July 2009.

¹⁸ The other subcommittees were Auditing, Public Sector Accounting, Farm Accounting and Research.

1991, the number of public practitioners was about the same as the number of academics, and also the number of employees from Robert Jones, Brierley and Fletcher Challenge. Just as with the Board itself, towards the end of the decade, the FAC had members from government organisations. Continuity of members and the movement of individuals from one area of accounting into another helped to strengthen the process but also confirmed that active participation in standard setting was a sign of personal interest in a professional activity.

Resourcing remained an issue for the Board even though for most of the 1980s the Board had the support of NZSA personnel, whose task was to collate standards produced overseas and provide the subcommittees with an exposure draft or organise the subcommittees to do so. The Board's work was not helped by the support personnel changing frequently. The NZSA's Research Officer, A.R. Salole, assisted the Board and its subcommittees until 1981, when he left. Salole was not replaced for a year, but from 1982 until 1991 the Board worked with five more researchers.¹⁹ The NZSA's Horizon 2000 Committee survey of members found the frequent turnover of research staff was attributed by members to low pay and no career structure, although nothing appeared to be done by the Council to counter this.²⁰ In 1986, T. Frankham, who had been Chair of the ARSB two years earlier, noted that the Board needed half a dozen support staff in addition to the full time research officer. In lieu of employing more staff the NZSA continued to rely on the universities to supply researchers and research resources.²¹ The ARSB used its subcommittees, with its university members, to work with the Society's research officer to write the accounting standards.

Producing standards was an expensive professional activity. The Society was reminded often of its responsibility as a professional organisation to improve the quality of external financial reporting for the benefit of New Zealanders.²² However, the Society did not alter its standard setting process or level of research, considering the cost of increasing research as too high for a small country.²³ Already about 14 per

¹⁹ C.A.P.N. Carslaw, Research Director 1982/83; C. Wentworth, Senior Research Officer/Director of Research 1983 to 1985; T. van Zijl, Director of Research 1985 to 1988; P.F.J. Brunner, Research Officer 1988; B.A. Porter, Director of Research 1989 to 1991

²⁰ L. McLean, 'The Setting and Enforcement of Accounting Standards and Research,' *The Accountants' Journal*, 63:2 (1984), p.83.

²¹ McLean (1984).

²² D. Flint, 'The Accountant and Research in the '80s', *The Accountants' Journal*, 61:2 (1982), pp.73-77.

²³ J. Hagen quoted in D. Tweedie, 'Giving meaning to financial accounts,' *The Accountants' Journal*, 64:8 (1985), pp.4-6.

cent of annual NZSA spending was on developing accounting standards, although not all of this was on research.²⁴ Some members felt that subscriptions should be raised to improve resourcing for standard setting, but adverse economic conditions in New Zealand at the time made it difficult for the Society to consider increased subscriptions.²⁵

The ARSB continually weighed the costs and benefits of developing a standard, knowing that often these fell unequally. The NZSA itself incurred the direct costs of developing standards and although the profession benefited from the prestige of being the developer of accounting standards, users of external financial reports were the main beneficiaries and they did not contribute financially. Entities benefited because standardising financial reports reduced the costs of preparing the reports and enabled secure entities to attract investors, although entities still incurred costs preparing those reports they also did not pay to develop the standards.

The cost to the NZSA of producing the standards was high and the Society looked to find ways of minimising these costs. From the beginning of its role as a standard setter the NZSA had done this by making use of accounting standards developed overseas and relying on the unpaid services of willing members. This was a cost efficient way of creating New Zealand standards but was still a significant portion of the NZSA's expenditure. Even when the ARSB produced a draft of a proposed New Zealand standard showing little or no change from the overseas standard, the overseas standard was scrutinised carefully by the Financial Accounting Subcommittee and the ARSB to ensure that the standard complied with New Zealand conditions. The Board worked to ensure that the standards issued by the Society had 'general acceptance but also had some good economic basis to them.'²⁶

The Standard Setting Process

During the 1980s, the ARSB frequently reviewed its standard setting process and consulted groups within and outside the profession, but the Board did not necessarily respond to pressure for specific changes in the process. The pace of change did alter now that the process for standard setting was robust and between 1979 and 1991 the Board reviewed many New Zealand standards producing 18

²⁴ *Annual Reports* 1980-1991, (Wellington, NZSA). Source: 'Research' (to 1983) and 'Research and Standards' (from 1984) in the Institute's Statement of Income and Expenditure each year.

²⁵ D. Trow interview 15 July 2009.

²⁶ T. van Zijl interview 16 July 2009.

SSAPs (No 10 to No 28), 44 EDs (No 22 to No 66), six research bulletins and numerous discussion papers, interpretations, technical practice aids and guidance notes.²⁷ As BRAP had in the 1970s, the ARSB decided the accounting issue or topic which should be the subject for a standard from ‘codification of existing practices, extensions or developments of practices and implementing IAS.’²⁸ For example, the method of accounting for deferred income tax was an important issue that was dealt with in SSAP-12 Accounting for Inter-Period Allocation of Income Tax. SSAP-12 was adapted from the international standard, IAS-12 Accounting for Taxes on Income. Another standard, SSAP-13 Accounting for Research and Development Activities, derived from IAS-9 Accounting for Research and Development Activities. Not all the standards adapted from overseas standards were based on the international standards. Some standards continued to come from other countries. For example, SSAP-18 Accounting for Leases and Hire Purchase Contracts was based on a similar British SSAP. The Board remained aware of what accounting standards were being produced overseas and if it felt that a New Zealand standard needed revising, then that would happen, as it did with FRS-13 Accounting for Research and Development Activities.

Sometimes local factors determined priority in standard setting as did the perceived needs of local entities. The ARSB decided in 1981 not to produce an SSAP on segmental reporting, even though standards were available on this issue, because some New Zealand entities objected to the concept of disclosing to competitors the result of segmental performance. The Board did not always follow entity wishes. Entities strongly opposed disclosing total sales for a period in their financial reports, as required by SSAP-9 Information to be disclosed in Company Balance Sheets and Profit and Loss Accounts, but later came to accept the disclosure. The revision of SSAP-8 Accounting for Business Combinations was also ‘largely driven by New Zealand issues.’²⁹ In the economic turmoil at this time, some New Zealand entities were avoiding consolidating entities that were their subsidiaries in substance.³⁰ SSAP-8, originally released in 1978, needed revising by 1984 because of the impact of Section 64 of the Companies Act on share premium reserves and the increasing

²⁷ Changes in government had little effect on the flow of SSAPs. SSAPs 10 to 15 were produced between 1979 and 1983 during a National Government and SSAPs 16 to 25 were produced between 1984 and 1990 during a Labour Government.

²⁸ C. Wentworth, ‘Setting Standards,’ *The Accountants’ Journal*, 62:3 (1983), p.123.

²⁹ K. Simpkins interview 15 July 2009.

³⁰ T. van Zijl interview 16 July 2009.

blurring of the line between entity mergers and takeovers, and in-substance subsidiaries. Whether responding to local conditions or deciding for itself when a new standard was necessary the overriding aim of the Board was to produce standards that would be acceptable to both preparers and users of external financial reports and which had a sound economic base.

As a first step in developing an accounting standard, the Board would direct the Financial Accounting Subcommittee to produce a draft.³¹ Often this draft was begun by the research officer who obtained copies of standards written elsewhere and analysed them for committee members. After approval, the Board issued an exposure draft and encouraged NZSA members and other interested organisations and entities to comment. The Board often sent any redrafts of the exposure draft for further comment directly to those who had sent in submissions and then sent the final standard to the Council for its approval.³² The approval of 8 of the 12 Board members was needed for an SSAP to go to Council for approval. After issuing an SSAP, the Board helped Society members to interpret and apply the standards by releasing Technical Practice Aids (TPAs) and Interpretations such as TPA-3 Accounting for the Revaluation and Disposal of Fixed Assets in the Context of the Historical Cost System and Interpretation No 16 for SSAP-10 Statement of Cash Flow.³³

How long it took a standard to be written and issued varied widely. Even though the standard setting process was rigorous and involved many people, committees and took time, the Council sometimes rejected a recommended standard. The Board's proposed standard on Foreign Currency, for example, was too different from any standard on this issue produced overseas for the Council to be comfortable. In 1987, the Council directed the ARSB to produce another standard on foreign currency disclosure. The Board did so, this time copying the international standard, which the Council accepted. The Council took possible entity reaction into account in its deliberations. The more entities thought a standard would adversely affect entity profit, the more likely they were to object to the standard as drafted. Consequently, the drafting and consultation periods were generally lengthy and some criticised the

³¹ Where relevant, the Auditing and Public Sector Accounting Subcommittees also drafted standards for the ARSB.

³² Editorial, 'The Front Page: Financial Reporting- according to Tony Frankham,' *The Accountants' Journal*, 65:1 (1986), pp4-7.

³³ TPAs generally dealt with issues that had several acceptable accounting practices and tried to narrow this range.

years it could take to produce a standard and the focus on some issues that had limited application.

In 1986, in response to such criticism, the ARSB decided to speed up the process. For example, the Board fast tracked writing SSAP-19 Accounting for Goods and Services Tax and SSAP-20 Accounting for Shares Issued under a Dividend. The exposure drafts for the two SSAPs, ED-35 Accounting for Goods and Services Tax and ED-36 Accounting for Shares issued under a Dividend Election Plan, were issued in March 1986 and the SSAPs issued only four months later. The speed was impressive. Indeed, the Lange Labour Government with Roger Douglas as Minister of Finance had introduced the Goods and Services Tax only that year, but the Board was able to process these standards quickly because they were not difficult to draft and caused little controversy when released.³⁴

Although the Board studied standards released from many countries and used individual standards from the United Kingdom, United States, Canada and Australia, the Board's preference for using the British standards remained strong. The Board also used international standards at times, such as when drafting SSAP-4 Valuation and Presentation of Inventories in the context of the Historic Cost System and SSAP-21 Foreign Currency Disclosure. However, international standards at this time were general, offering too many options and alternative methods. These standards did not improve until closer to the turn of the century. When they did improve, they were an important factor in New Zealand making major changes to the standard setting process. Even though the quality of international standards was not as high as the NZSA desired, the Board continued to use many international standards, in addition to standards from Britain, Canada and Australia.

Council expected the Board to consult with other interested groups in New Zealand when developing standards but the ARSB remained somewhat ambivalent about this. In 1983, McCaw, Chair of the ARSB, considered that consultation with outside groups was unnecessary on the grounds that those who should be consulted were already members of the NZSA.³⁵ Some members of the profession supported this view. Tweedie noted that the clients of the accounting firms were those affected by accounting standards and therefore accountants were already talking, and thus

³⁴ F. Devonport interview 17 December 2009.

³⁵ P.M. McCaw, 'Beware Lion's Mouth warns Head of IASC,' *The Accountants' Journal*, 62:1 (1983), p.5.

consulting with the users of the standards.³⁶ However, the Horizon 2000 Committee in its review of Society procedures found that these were not the view of the majority. Most members surveyed at this time believed that the Society was not consulting sufficiently with entities, which they considered was why compliance with standards was not as good as it could be.

It appears from the evidence above that those most closely involved in standard setting considered that the standard setting process was sufficiently consultative, but that those not involved disagreed, suggesting that communication between the two groups was not as strong as it could have been. The standard setters went to great cost to disseminate exposure drafts widely and they encouraged responses. But studies on responses to exposure drafts, such as those by Velayutham and Tutticci *et al.* in Australia and Hope and Gray in the United Kingdom, found that responses tended to come from groups that considered their comments would be listened to.³⁷ Baskerville proposed that the perceived lack of consultation stemmed from a lack of ‘belief by stakeholders that the Board will change the resulting standard sufficiently to ensure making a submission is cost-benefit efficient.’³⁸ She confirmed the Australian and British studies, finding that in New Zealand responses to exposure drafts were low, except for two periods when interested groups felt they would be listened to. The first period was in 1983 with the release of ED-28 and ED-29, the two drafts that led to SSAP-3 Depreciation of Fixed Assets and SSAP-17 Accounting for Investment Properties by Property Investment Companies. These drafts sparked much interest because of their controversial suggested accounting methods.³⁹ The second period was 1991-1993 when major changes were being made in the standard setting regime and groups inside and outside the profession were interested in the changes.⁴⁰

Baskerville’s first period of relatively high response to exposure drafts corresponded with the Horizon 2000 Committee’s survey of members which may explain both McCaw’s and members’ replies. The Horizon 2000 Committee therefore supported the Council’s directive to the Board, recommending that the NZSA consult outside groups in the standard setting process. In 1984, in response to this

³⁶ Tweedie (1985).

³⁷ Velayutham (1990); Tutticci *et al.* (1994); Hope and Gray (1982).

³⁸ Baskerville (1997).

³⁹ SSAP-3 is discussed in the previous chapter and SSAP-17 is discussed later in this chapter.

⁴⁰ See the next chapter.

recommendation, the ARSB established the Accounting Standards Consultative Group. The ARSB intended that this group, meeting once or twice a year with some members of the Board, would allow organisations outside the profession who were interested in accounting standards to give their views on the standards. The group included representatives from the Finance Executives Institute, the Institute of Directors, Listed Companies Association, the New Zealand Society of Investment Analysts, the Securities Commission and the New Zealand Stock Exchange.⁴¹ How long this group continued to meet is unclear as is how useful it was to the ARSB, for the Board did not rely on the Accounting Standards Consultative Group as the only means of conferring with other organisations. The ARSB on some occasions consulted entities directly. For example, there were talks on ED-41 Related Party Disclosures with entities likely to be strongly affected by its implementation.⁴² Other members urged wider consultation, saying that external financial reports should be user focused and talking with users was essential. 'Accounting standards are too important for accountants to be setting alone.'⁴³ For the profession did not set standards in a political and economic vacuum. The perception of the profession was to a large extent governed by its relationship with the business sector and user perception of the effectiveness of standards and the profession needed to be seen to be responding to issues related to external financial reporting.

Groups outside the Society also wanted the NZSA to communicate with them. A university survey of share brokers and institutional investors found these groups wanted the NZSA to consult them more.⁴⁴ Users of external financial statements knew what type of standard they wanted and they needed the NZSA to know this. Users wanted as few accounting standards as possible and a minimum of alternative methods. Simplicity and consistency were the desired characteristics for accounting standards. Despite these demands, the Board did not alter its process of developing accounting standards, nor did the Board include formal direct consultation with groups outside the NZSA as part of the process.

⁴¹ R. Macdonald, 'Executive Director's Report,' *75th Anniversary Annual Report and Accounts*, (Wellington, 1985), p.11.

⁴² T. van Zijl interview 16 July 2009.

⁴³ Editorial, 'The Front Page: Financial Reporting- according to Tony Frankham,' *The Accountants' Journal*, 65:1 (1986), p.7.

⁴⁴ C. Cliffe, F. Devonport and A. Robb, 'New Zealand Accounting Standards- a survey of views of sharebrokers and institutional investors,' *The Accountants' Journal*, 63:9 (1984), pp.441-443.

Limitations in Standard Setting

Although the ARSB was the standard setting body in New Zealand its independence in standard setting received serious challenges during the 1980s from both within and without the NZSA. The reactions of interested groups to the NZSA's handling of inflation accounting, which remained an issue from the previous decade, and accounting for investment properties showed that the ARSB could not work alone in standard setting. Even within the profession itself there was not unanimity in how standards were to achieve their purpose of ensuring clear and consistent external financial reporting. Again, these issues raised the problem of enforcing compliance with the standards.

Accounting for inflation

The debate on inflation accounting had begun in the 1970s when the New Zealand economy experienced rapidly rising inflation and the NZSA had responded with a standard using Current Purchasing Power that New Zealand entities and the Government had rejected. Then, at the beginning of the 1980s, the NZSA's Continuing Education Committee held a series of workshops throughout the country to inform members of how to account for inflation using Current Cost Accounting.⁴⁵ The Council had asked the ARSB to produce a new standard based on Current Cost Accounting to replace the standard that used CPP. The ARSB drafted CCA-1 that followed the British SSAP-16 as well as incorporated recommendations from the New Zealand Government's 1977 Richardson Report. Although entities in New Zealand and Britain had fought to use CCA rather than CPP, the accounting method first recommended by the accounting profession in both countries, SSAP-16 was unpopular in Britain and after much criticism there it was withdrawn.⁴⁶ Pong and Whittington in their study of this episode in the British history of standard setting noted that major factors influencing the sequence of events in the accounting for inflation debate in Britain included the tension between entities and auditors, the economic environment and the roles of the accounting profession and the state. They

⁴⁵ J. Hagen and P. Welham, 'CCA- now it's decision time,' *The Accountants' Journal*, 60:7 (1981), p.266.

⁴⁶ Interview with J.R. Small, 'SSAP-16: A glimmer amid the gloom,' *The Accountants' Journal*, 60:1 (1981), pp.63-65. See also J.B. Ryan, 'Historical Cost still has uses in a CCA world,' *The Accountants' Journal*, 61:8 (1982), p.324-327 for a summary of the 'battle' over SSAP-16.

saw the profession's refusal to support the Accounting Standards Board as critical to the failure of the British standard that accounted for inflation.⁴⁷

In New Zealand, the ARSB realised that the draft CCA-1, which allowed more than one way of measuring profit, would be the subject of as much debate as the British SSAP-16 was in the United Kingdom. The Board therefore issued a revised CCA-1 as the first of a new category of accounting standards, called Current Cost Accounting Standards (CCAS).⁴⁸ The ARSB's misgivings were correct. In New Zealand, the accounting profession and other groups strongly debated CCA-1.⁴⁹ The ARSB tried to show the wider community that CCA-1 would benefit all sections of New Zealand society, showing that entities using CCA-1 would give more appropriate and accurate information about themselves to the users of external financial reports and therefore there would be better decision-making by investors. *The Accountants' Journal* published much of the debate and gave regular updates on the issues raised by CCA-1.

Although there was much criticism of CCA-1 in business circles, in 1982 both the NZSA and the Stock Exchange supported the proposed standard.⁵⁰ However, entities generally did not support the standard and the University of Waikato Inflation Accounting Research Project showed that the majority of entities were not using CCA-1 in their external financial reports.⁵¹ There were a number of reasons given for this at the time, significant among them the fact that the Muldoon National Government (1975-1984) would not provide a tax advantage to entities accounting for inflation in this way. There had been some speculation that the government would change the base for calculation of tax if the standard was used, but it became clear that the government had no intention of doing so, thus diminishing entity enthusiasm for accounting for inflation. Another problem was that entities found the implementation of CCA-1 too complex. But the main reason for entities refusing to use CCA-1 was that there was no longer a need to do so. Inflation was falling overseas as the

⁴⁷ Pong and Whittington (1996).

⁴⁸ 'Council issues 'more flexible' CCA standard,' *The Accountants' Journal*, 61:3 (1982), p.83. In the same issue, p.114, the ARSB issued the 'Explanatory Foreword to CCA-1'.

⁴⁹ Editorial, 'CCA for some- or for all?' *The Accountants' Journal*, 60:1 (1981), pp.41-42.

⁵⁰ B.A. Christmas told the AGM there would be no back-down on CCA. Source: 'Society News: Report of B.A. Christmas' President's Address at AGM,' *The Accountants' Journal*, 61:11 (1982), p.428 and See also M.I. Harriman, 'Stock Exchange Head backs CCA accounts,' *The Accountants' Journal*, 61:3 (1982), p.111.

⁵¹ R. Peterson, H. Gan and K. Lim, 'CCA- the day after,' *The Accountants' Journal*, 63:2 (1984), pp.88-96.

international economic situation improved, lessening the need for measures to account for inflation. New Zealand entities dealing in the international market for their goods no longer required such measures and refused to comply. Recognising this, in 1985, the NZSA withdrew CCA-1 and reissued the standard as 'recommended best practice' rather than as an SSAP.⁵² At the same time the ARSB established an Advisory Group on Inflation Accounting 'to specify a set of information disclosures appropriate to the needs of financial statement users and generally acceptable to preparers of financial statements' but the Advisory Group also became less necessary as economic conditions continued to improve and did not meet.⁵³ As Frankham commented, 'CCA-1 was conceptually sound but its practical application was too complex.'⁵⁴

A study of the failure of CCA-1 identified several factors influencing standard setting in New Zealand in the early 1980s. Baskerville's thesis (1994) and paper (1999) on CCA-1 compared, ten years later, the reflections of those intimately involved in setting the standard with judgements made nearer the time. The tax issue was and remained a major element in the decision of entities to refuse to comply with CCA-1. But the standard setters also considered that using CCA-1 would have forced entities to show reduced profits, something that entities would not have wanted to do. Thus, entity compliance, or rather non-compliance, forced the eventual withdrawal of the standard. For entities it was the changing overseas situation that reinforced their decision to not use CCA-1. Baskerville concluded that, unlike in the United Kingdom, in New Zealand 'resistance was not so much from practitioners as companies and their boards.'⁵⁵ This challenge to the Society's authority to draft standards emphasised the weakness of standards not being mandatory and highlighted how the NZSA remained sensitive to external pressure. But the controversy over CCA-1 had an interesting consequence in the development of a New Zealand conceptual framework and the creation of SSAP-17.

...the current cost accounting debate- that is, current cost accounting versus historical cost accounting- caused us to go back to first principles and think about the issues.
(D. Macdonald 2009).

⁵² R. Macdonald, 'Executive Director's Report,' *78th Annual Report and Accounts*, (Wellington, NZSA, 1986), p.18.

⁵³ Ibid.

⁵⁴ Editorial, 'The Front Page: Financial Reporting- according to Tony Frankham,' *The Accountants' Journal*, 65:1 (1986), p.6.

⁵⁵ Baskerville (1999), p.5. For discussion on the issue of current cost accounting in the United Kingdom, see, for example, Pong and Whittington (1996).

SSAP-17 Accounting for Investment Properties by Property Investment Companies

SSAP-17 showed the ARSB's confidence in standard setting and how it acted to improve accounting standards even though there was opposition from some NZSA members and influential entities. The standard indicated the extent to which the New Zealand profession was prepared to move ahead of the profession elsewhere and 'take a lead.'⁵⁶ Challenges to SSAP-17 Accounting for Investment Properties by Property Investment Companies came from both within and outside the Society. Opposition to the proposed standard highlighted the increasing difficulty the profession had in getting the standards implemented.

SSAP-17, released in 1985, was the first standard the New Zealand Board wrote from first principles. The standard proposed that entities took into account as income the changes in values of investment properties prior to those changes in values being realised by sale of the properties. As a sign of their confidence Board members considered that they had the intellectual experience and depth to work on an issue that better resourced accounting research committees overseas had not touched.⁵⁷

The Board used data from research on investment properties in the United States to produce a standard that was novel in that it had a different focus from previous New Zealand standards. Until SSAP-17, the NZSA's standards reflected the British view that saw the presentation of external financial statements as an accountability issue, management reporting to owners. With SSAP-17, the NZSA began focusing on the external users of external financial reports, that is, the decision usefulness of the reports; an American view.⁵⁸ The debate on whether accounting standards should reflect accountability or decision usefulness continues to this day. Both foci are important and incorporated in the rationale for conceptual framework, thus helping explain the accounting profession's actions in using standard setting as a professionalisation mechanism.

SSAP-17 was drafted because the ARSB recognised that there were diverse accounting practices in respect of investment property companies. The standard stressed relevance rather than reliability, taking a comprehensive view of income and accepting that entities could define income in a number of ways. SSAP-17 was therefore different from other SSAPs in how it recognised income. Other SSAPs had

⁵⁶ F. Devonport.

⁵⁷ D. Macdonald interview 14 July 2009.

⁵⁸ C. Cliffe, F. Devonport and A. Robb, 'A critical examination of achievements in setting certain accounting standards,' *The Accountants' Journal*, 63:5 (1984), pp.223-225.

income based on realised profits, while SSAP-17 included unrealised profit. Following feedback from preparers of financial statements, the ARSB established a Review Group to examine the scope of the standard and consider some of the issues raised in submissions on the draft. SSAP-17 was acknowledged by observers overseas to be radical and brave.⁵⁹ However, compliance became an issue as property values began falling. In 1988 the NZSA withdrew SSAP-17 and established a review group. In 1989 another standard was issued, SSAP-17 Accounting for Investment Properties and Properties intended for Sale. This standard provided a more conservative and international approach to the accounting for investment properties, allowing historic cost and revaluation methods. SSAP-17 showed the divergence between theoretical best practice and actual preferred entity practice highlighting the dilemma for the NZSA of how to improve the quality of accounting standards that entities were prepared to use voluntarily.

Rahman *et al.* applying demand and supply analysis (with the NZSA providing supply of standards and demand for standards from users of external financial reports) to the SSAP-17 issue, concluded that the larger accounting firms followed by the major entities had the greatest influence on the outcome of the standard's future.⁶⁰ Those members of the Society dealing with business entities allied with them against the desire of the ARSB to produce a standard that provided clear direction in accounting for investment properties. This move did not help the profession present a united front to the community and revealed differences in outlook within the profession as regards approaches to standard setting. There were tensions within the Society between members who saw developing standards with clear and restricted methods of accounting that went toward fulfilling a true and fair view of external financial statements and those members who saw their duties as satisfying clients as fulfilling public interest. These differences in views within the profession affected the usefulness of standard setting as a means for professionalisation as the trust the community had in the profession to ensure quality external financial reporting was diminished somewhat.

⁵⁹ D. Tweedie, 'All Blacks (SSAP-17) 4- Lions (SSAP-19) 0,' *The Accountants' Journal*, 64:6 (1985), p.20. See also the 75th Anniversary Research Lecture given by D. Tweedie in 1985, *The Accountant: A Crusader or a prisoner of the past?* (Wellington, NZSA, 1985).

⁶⁰ A.R. Rahman, M.H.B. Perera and G.D. Tower, 'Public Choices and Accounting Standard Setting in New Zealand: An Exploratory Study,' *Abacus* 30:1 (1994), pp.98-117.

Keenan also identified the conflict within the profession over SSAP-17. He saw the disagreement within the NZSA over the necessity for the method of accounting for investment properties, as outlined in SSAP-17, as a case of collegiate versus individual regulation, producing a crisis in the Society's standard setting history.⁶¹ Collegiate regulation was the efforts of the ARSB to produce a standard with minimum alternatives and a clear purpose of intent. Those members who opposed the standard favoured the views of their clients and the right to apply accounting methods that suited individual entities. Keenan referred to individual regulation of financial reporting, where accountants were free to use their skills and experience as professionals to judge which methods should be used, as anarchy and the refusal of some members to have their clients comply with SSAP-17 as 'anarchic rejection.'⁶² Anarchy is possibly a strong word because Society members were not acting completely independently of each other. Members were sharing ideas of good practice as they had even prior to the introduction of standards.

Identifying cash flows was another accounting issue that was eventually resolved. BRAP had produced SSAP-10 Statement of Changes in Financial Position in 1979 but the standard was criticised for being too vague in defining funds.⁶³ The ARSB reviewed the standard and in 1987 released SSAP-10 Statement of Cash Flows, which defined funds as cash. The robustness of the ARSB's standard setting process can be seen in the Board's immediate response to problems with the revised SSAP-10. The quality of cash flow statements produced by entities using the revised standard was not as good as expected. The ARSB quickly analysed the financial statements and within a year had reviewed and reworked SSAP-10 to improve entities' cash flow statements.⁶⁴

Complying with the standards

The reception SSAP-17 and CCA-1 received on their release highlighted for the ARSB the problem that BRAP had encountered a few years previously with CPP, that is, how to get entity compliance. SSAP-17 and CCA-1 were different from the other standards the NZSA had released, for with these two standards 'commercial

⁶¹ Keenan (2000).

⁶² Ibid, p.105.

⁶³ B. Jamieson, 'Financial Reporting: A Critique of SSAP-10,' pp.35-36 and F. Devonport, 'A Commentary on the revised SSAP-10 Statement of Cash Flows,' pp.37-40 in *The Accountants' Journal* 67:4 (1988).

⁶⁴ K. Simpkins interview 15 July 2009.

reality overwhelmed accounting purity.’ In general the NZSA’s standard setting process was effective in that entities usually complied with the standards.⁶⁵ Although the University of Waikato project was no longer monitoring compliance levels, the Board regularly surveyed formally and informally and found little change since 1976. Non-compliance was uncommon. Even so, Frankham, as Chair of the Board, openly criticised some entities that were not complying with the standards in their financial statements. In 1985, for example, Frankham issued a press release critical of NZ News Limited for not following SSAP-7 Extraordinary Items and Prior Period Adjustments, and consequently overstating trading profits by incorporating tax credits from extraordinary items. Because there was no procedure forcing entities to adopt the standards, the NZSA could do no more outside the Society than press the Stock Exchange to police entities listed with it or, as Frankham was doing, naming and shaming.⁶⁶ Members of the NZSA had to abide by the standards but the Society was unable to compel company directors who were not members of the NZSA to use the standards. Although most entities were complying, any cases of non-compliance were challenges to the authority of the NZSA as standard setter and its professional reputation. In this respect non-compliance was a concern, and had been so particularly following the events of the late 1970s on accounting for inflation, but the New Zealand profession could not agree on the extent to which non-compliance was a concern.

The profession debated whether standards should be compulsory.⁶⁷ The Horizon 2000 Committee, for example, surveyed NZSA members and asked:

- Who should set accounting standards?
- Is it practical for this task to be carried out by more than one body jointly?
- Who should have primary responsibility?
- Are standards any use without enforcement?
- Who should be responsible for enforcement?⁶⁸

For members like Frankham, non-compliance was an issue on which they felt strongly enough to speak out in the media. The NZSA’s Horizon 2000 survey also showed that many members felt that the NZSA was better at developing standards

⁶⁵ P. Gray, ‘Accounting Standards- why we have them and why they need more muscle,’ *The Accountants’ Journal*, 67:8 (1988), p.3.

⁶⁶ Editorial, ‘The Front Page: Financial Reporting- according to Tony Frankham,’ *The Accountants’ Journal*, 65:1 (1986), pp.4-7.

⁶⁷ R. Wilson, ‘Accounting Standards- a legal view,’ *The Accountants’ Journal*, 62:5 (1983), pp.225-226.

⁶⁸ McLean (1984).

than enforcing them. Some members recommended a body outside the NZSA to enforce accounting standards.⁶⁹ Other members were opposed to legislating for accounting standards. They did not want an outside body controlling their drafting and use and did not want the NZSA to have legislative backing for the standards, as in Canada. To those members, the ARSB was a catalyst not an initiator. 'So blow the whistle, raise the alarm, back up the auditor.'⁷⁰ One member of the NZSA in fact suggested that there was already legal backing for the standards but this idea did not receive any support.⁷¹ The contrasting views on whether or not standards should be compulsory and legislated were strongly debated within the Society but they have a common basis.

Arguments for and against legislation make the same assumption, that standard setting is the province of and part of the reputation of the professional accountant, explaining why some NZSA members, mindful of the link between standard setting and professional image, cautioned that whatever the outcome of the debate, accountants needed to present the community with a united view that was strong and sustainable.⁷² Those pressing for legislation recognised the importance of full compliance to the authority of the profession and acknowledged this was possible only with government support. Those against legislation believed that the professional reputation of the accountant rested on good relationships with clients and the community. Interested groups outside the profession held equally contrary views on the need for compulsory standards which in many respects reflected the reasons underlying the differing groups within the NZSA. Share brokers opposed legislated standards but other groups, such as the Securities Commission, advocated legislation.⁷³

The New Zealand profession was not alone with this problem. Following continuing problems of entity compliance with standards, several countries had, or were in the process of making standards mandatory, giving the New Zealand

⁶⁹ S.A. Zeff, 'The Front Page: Making Standards Work,' *The Accountants' Journal*, 63:7 (1984), p.290.

⁷⁰ Editorial, 'The Front Page: Financial Reporting- according to Tony Frankham,' *The Accountants' Journal*, 65:1 (1986), pp.4-7.

⁷¹ C. MacLennan, 'Enforcing SSAPs,' *The Accountants' Journal*, 67:9 (1988), p.3. MacLennan suggested that under the Fair Trading Act, businesses could not produce misleading external financial reports.

⁷² O.W. Pitcaithley, 'Do we care enough? Thoughts from a retiring Branch Chairman,' *The Accountants' Journal*, 59:1 (1980), p.8.

⁷³ Cliffe, Devonport and Robb (1984); J. McManamy, 'Should accounting standards carry legal force?' *The Accountants' Journal*, 63:6 (1984), p.241.

profession the opportunity to see the effects of such changes.⁷⁴ Except for Canada, most countries created a statutory body to authorise compulsory standards. In the United States, mandatory accounting standards were authorised as early as 1934 by the Financial Accounting Standards Board (FASB) a body established by legislation and independent of the accounting profession. The American structure was established as a result of entity failures in the 1929 share market crash and not only were American accounting organisations separate from the FASB, but the United States Congress was now proposing that non-accounting groups associated with standard setting be represented on the FASB's 'parent' the Financial Accounting Foundation.⁷⁵ The American situation showed that legislated standards gave consistency in external financial reports but the standards could become too inflexible. For an American accountant or preparer of external financial reports to know if particular accounting situations or problems came within the legislation, standards had to be very prescriptive.

In Canada, on the other hand, the accounting profession maintained control over standard setting and legislative authority for its work. The accounting standards in the Canadian Institute of Chartered Accountants' Handbook formed Canadian GAAP and the Institute's Accounting Research Committee developed the accounting standards. A disadvantage with the Canadian system was that it did not separate development of standards from authorising standards and although the accounting profession gained prestige for its work in developing standards there was a problem of perception of professional independence, even though the CICA did not draft the standards alone. From 1968, research groups established by the CICA had representatives from organisations and groups outside the accounting profession.

In 1984, the Australian Government, in response to entity collapses in the 1970s and the continuing low level of compliance with standards, established the Accounting Standards Review Board (ASRB).⁷⁶ This Board was separate from the accounting profession and its brief was to review and approve mandatory accounting standards. This independence was short lived. In 1988, the Accounting Standards Board within the Australian Accounting Research Foundation (AARF), the standard setting arm of the two largest Australian accounting organisations, merged with the

⁷⁴ Lee, Clarke and Dean (2009).

⁷⁵ W. Schuetze, 'Current Developments in Accounting,' *The Accountants' Journal*, 59:1 (1980), pp.49-59.

⁷⁶ Clarke and Dean (2007).

ASRB. Thus, the Australian accounting organisations were now represented on, and worked with, the government appointed body, which for some compromised the independence of the profession.⁷⁷

The United Kingdom was slower to obtain mandatory accounting standards in part because the standard setting process was more complex than in most countries. The British standard setting body, the Accounting Standards Committee, had members from six accounting organisations who had difficulty agreeing on the content of the standards.⁷⁸ In 1991, following the Dearing Report, the British government created a statutory body, the Accounting Standards Board, to develop and issue compulsory standards.⁷⁹

The Horizon 2000 Committee acknowledged the wide diversity of members' views, and, knowing what was happening overseas, recommended that the NZSA should obtain legal backing for accounting standards.⁸⁰ Legislating for accounting standards would give the standards authority. Compulsory standards would help promote consistency in the preparation of external financial reports, making it easier for users to compare reports from different entities. Although the Committee recommended legislation the NZSA did not push for this immediately. Indeed the ARSB initially recommended to the Council that standards remain voluntary but political and economic events in New Zealand during the 1980s forced a rethink of the Board's position.

At the very moment the NZSA was debating the issue of mandatory standards the Lange Labour Government was elected in New Zealand in 1984. This government was intent on introducing radical economic changes aimed in part at reducing entity regulations, rather than increasing them, as would occur with mandatory accounting standards. The political climate was not right for making accounting standards more regulatory. But this situation was short lived. In New Zealand's new liberal economic climate some New Zealand entities adapted enthusiastically to the laissez-faire

⁷⁷ Addison and Leo (1998).

⁷⁸ Association of Chartered Certified Accountants (ACCA), Institute of Chartered Accountants in Ireland (ICAI), Institute of Chartered Accountants of Scotland (ICAS), Institute of Municipal Treasurers and Accountants/Chartered Institute of Public Finance and Accountancy (IMTA/CIPFA), Institute of Cost and Works Accountants/Institute of Cost and Management Accountants/Chartered Institute of Management Accountants (ICWA/ICMA/CIMA) and the Institute of Chartered Accountants in England and Wales (ICAEW).

⁷⁹ For a recent and comprehensive history of this period see B.A. Rutherford, *Financial Reporting in the UK: a history of the Accounting Standards Committee 1969-1990*, (London and New York, 2007).

⁸⁰ Horizon 2000 Committee, 'Horizon 2000- main recommendations and observations,' *The Accountants' Journal*, 63:10 (1984), p.471.

policies of the Labour Government to the extent that they collapsed in the share market crash of 1987 they were criticised for their failure to comply with accounting standards and their willingness to accept qualified audit reports, their external financial statements having, as Lee *et al.* defined, ‘material accounting misstatements.’⁸¹ The accounting profession had cause for concern with entity owners’ and managers’ disregard for the opinions of auditors for this implied a corresponding disregard for the profession, confirming accounting’s professional reputation was linked in part to its role as standard setter.

This reputation was further dented when the accounting profession came under scrutiny following the share market crash. Some media commentators blamed the New Zealand accounting profession for allowing a ‘wild west’ attitude among the failing entities.⁸² How far can the profession be held responsible for the greed of some opportunistic entrepreneurs? Clarke and Dean observed in their analysis of similar entity collapses before and since 1987 in the United Kingdom, United States and Australia, that often the misleading financial statements were prepared in compliance with the standards. They concluded that the problem lay in the approved regulatory system, not the standards themselves.⁸³ Lee *et al.* allot some responsibility to the accounting profession, including the preference of auditors to seek self interest over public interest.⁸⁴ On the other hand, in New Zealand, Wheeler and Nash, in their analysis of the 1987 share market collapse, concluded that volatility in a small New Zealand market and the consequences of the government economic reforms were greater contributing factors than the nature of the accounting regulatory system.⁸⁵

Although New Zealand had not experienced the same intensity of pressure for compulsory standards as other countries, the 1987 share market crash prompted interested groups to push for mandatory accounting standards. There was a precedent for legislative changes following entity collapses, in New Zealand as elsewhere. Indeed, researchers such as Nobes have remarked on the recurring cycle of public criticism followed by apparent or real improvement in standards or the standard setting regime. This, Lee *et al.* noted, may lead to a paradox of false expectations,

⁸¹ Lee *et al.* (2009), p.409.

⁸² R. Nelson and C. James, ‘Behind closed doors: New Zealand investigates Private Share,’ *Far Eastern Economic Review*, 139:9 (1988), p.66.

⁸³ Clarke and Dean (2007).

⁸⁴ Lee *et al.* (2009).

⁸⁵ P.B. Wheeler and M. Nash, *An Examination of the Sharemarket Crash and its Aftermath in New Zealand*, (Wellington, 1989).

where moves to allay public misgivings on the reliability of external financial reporting may lead to higher expectations of those reports.⁸⁶ In 1978, when some entities were going into receivership, the New Zealand Government responded to public pressure for increased regulation by establishing the Securities Commission to oversee entity behaviour. Although the Securities Commission gave indirect government support to accounting standards this did not make compliance with accounting standards compulsory. The Commission's brief was to monitor the quality of external financial reports to ensure that entities gave sufficient information to investors for their decision-making. Like the NZSA, the Commission could only comment on the level of entity compliance with accounting standards, not enforce the standards.

The NZSA decided that the model of standard setting in Britain and Australia was best for New Zealand because this model allowed for separation of the development and authorisation of standards.⁸⁷ As noted earlier, in the case of Australia the separation was more apparent than real. Gavens *et al.* and Rahman saw the cooperation of the Australian profession with the statutory board as co-participation but Walker observed that the cooperation was more a matter of the profession continuing to control the standard setting process, the reverse of the misgivings of those, like Addison and Leo, who rather saw the cooperation as the profession losing its independence as standard setter.⁸⁸ With the close relationship between New Zealand and Australia it is possible that the NZSA did have this degree of control in mind when it showed a preference for this option earlier in the decade in its recommendations to Government on the review of the Companies Act. The NZSA's submission at that time included a recommendation that the government establish a body external to the profession with the authority to issue mandatory accounting standards.⁸⁹ The Government did not take up the suggestion, although it

⁸⁶ Nobes (1991); Lee *et al.* (2009).

⁸⁷ Not everyone agreed. Gibson and Carnegie urged the NZSA to follow Canada. R.W. Gibson and G.D. Carnegie, 'Closer Economic Relations and Accounting Standards,' *The Accountants' Journal*, 68:9 (1989), p.51.

⁸⁸ Gavens *et al.* (1989); Rahman (1992); Walker (1987).

⁸⁹ 'Society's submission to the Securities Commission,' *The Accountants' Journal*, 59:5 (1980), p.165. A summary of the Institute's submission is on p.170 of this issue. The *Journal* also summarises the changes in the Act in issue 59:9, pp.435-438.

did tighten aspects of the law dealing with the obligation of entities to make information available to investors and other interested groups.⁹⁰

The timing was right for the NZSA because the New Zealand Government was about to make major legislative changes to the financial reporting framework. Spurred on in part by the 1987 share market crash, the Lange Labour Government established three Government Commissions that filed their reports in 1989. The Law Commission examined current company law, the Russell Committee studied the share market collapse and the Securities Commission reviewed capital structure and financial reporting in New Zealand. All three reports impacted on company reporting and the accounting profession's future role in standard setting. The Law Commission Report, for example, favoured the Securities Commission enforcing accounting standards and both the Law Commission and Russell Committee recommended that the NZSA continue to develop accounting standards.

The NZSA in general supported the Commissions' findings, especially the recommendations that the government establish a new body to authorise accounting standards and that entities disclose non-compliance with accounting standards. Where the Commissions' findings differed from the other reports and the NZSA was over the responsibilities of the new body. The Russell Committee suggested an Accounting Standards Board to authorise accounting standards while the Securities Commission on the other hand recommended an Accounting Standards Review Board that developed, approved and revised non-mandatory accounting standards, wrote the conceptual framework and monitored the law and practice of financial reporting. The Securities Commission also envisaged legislating regulations forcing entities to comply with the standards.

The NZSA preferred a combination of the recommendations from the reports.⁹¹ The NZSA wanted external financial reporting of entity activities to reflect the economic form (that is, substance) rather than the legal form of a true and fair view of an entity. The Society was wary of legislating regulations because they would need to be prescriptive and hence would be difficult to write. A standard would have to cover all eventualities and necessarily be so prescriptive that it was less flexible to apply than a standard that was shorter and more general in content. The Society

⁹⁰ E.M. Hickey, 'Accounting Records to be kept by companies,' *The Accountants' Journal*, 59:1 (1980), pp.128-130

⁹¹ B. Porter and K. Simpkins, 'Securities Commission Report: a Blueprint for the Future?' *The Accountants' Journal*, 69:5 (1990), pp.16-20.

therefore preferred the Russell Committee's recommendation that accounting standards be legislated rather than the Securities Commission's option of legislating regulations for financial reporting. As the President of the NZSA commented, the advantage of this approach was that the business community could more easily understand the regulatory system and write their financial reports to better show the activities of individual entities.⁹²

The NZSA agreed with the suggestion that there be a body external to the accounting profession to authorise accounting standards, but the Society wanted representation on that body.⁹³ The Society preferred the Securities Commission's suggestion of an Accounting Standards Review Board, but in its submission to the government on the reports the Society recommended that this Board be independent of the Securities Commission. Further, the Society recommended that accounting standards apply to all companies and other public issuers.⁹⁴ Thus the profession recognised that to achieve compliance with accounting standards government legislation was necessary. Further, the profession accepted that the standard authorising body needed to be independent, or rather, be perceived to be independent of the profession. However, the NZSA, as the professional accounting organisation in New Zealand, wanted to play a role in the revised financial reporting framework.

The Accounting Standards Review Board (ASRB) was the outcome of the consultation process. In 1991, the Bolger National (1990-1997) Government introduced the Financial Reporting Bill in which the Government proposed establishing the ASRB. This Board as a statutory body was to have the authority to approve now mandatory accounting standards. Any interested organisations, not only the accounting profession, could submit standards. The NZSA agreed with the major proposals in the Bill but was concerned that the Bill did not outline '...the structure by which accounting standards are to be developed.'⁹⁵ The NZSA's submission on the Bill repeated the recommendations the Society had made on the Securities Commission Report about NZSA representation on the Board and stressed the

⁹² P. Hays, 'Editorial,' *The Accountants' Journal*, 69:5 (1990), pp. 1 and 3.

⁹³ Porter and Simpkins (1990).

⁹⁴ 'Society's submission on Securities Commission Report,' *The Accountants' Journal*, 69:6 (1990), pp.25-27. There were other reviews and reports submitted to Government during the consultation period including the NZSA's *Joint Submission on Business Law Reform- Financial Reporting* (April 1991) with the New Zealand Stock Exchange and the Securities Commission and the Roche Committee's *Report of the Ministerial Working Group on Securities Law Reform* (May 1991)

⁹⁵ P. Hays, 'Financial Reporting Proposals Unsatisfactory,' *The Accountants' Journal*, 70:8 (1991), p.5.

importance of entities showing a true and fair view of their activities through complying with generally accepted accounting practice.

The profession's submission also showed the extent to which it had changed its attitude towards its dominance of standard setting. For the profession, control of the standard setting process was in part linked to financing of the system and until now the profession had borne the costs of actually developing standards although, as mentioned earlier, at one time the NZSA had briefly considered asking entities to help finance the work of the Board.⁹⁶ The costs of standard setting were high. In 1987-88, for example, these costs amounted to just under one third of membership subscription.⁹⁷ Now the Society's submission recommended sharing the costs of developing accounting standards between the accounting profession, government and the business community.⁹⁸ The financial and other costs of standard setting were beginning to outweigh the professional benefits.

By the end of the 1980s the questioning of the accounting profession's authority in standard setting led to the profession accepting the concept of mandatory standards and a statutory body independent of the profession authorising the standards. Researchers studying these responses of the New Zealand accounting profession have noted that the questioning was internal as well as external, as Keenan observed, and that the profession was threatened by apparently regressive steps in their ability to use standard setting as a means of professionalisation, as Velayutham and Perera argued.⁹⁹ However, other factors external to the profession, in particular the liberal economic climate under the Lange Labour Government, helped the profession to expand rather than contract its dominance of standard setting and to do so in an especially innovative fashion.

Accounting Standards for the Public Sector

During the 1980s, as part of broader changes in the standard setting process, the NZSA extended the use of accounting standards into the public sector.¹⁰⁰ For 40

⁹⁶ See Chapter Eight.

⁹⁷ G. Tower, 'The Web of Regulation Unfolds,' *The Accountants' Journal*, 68:4 (1989), pp.17 and 20.

⁹⁸ 'NZSA submission on the Financial Reporting Bill 1991- Principal Concerns and Recommendations,' *The Accountants' Journal*, 71:3 (1992), p.23.

⁹⁹ Keenan (2000); Velayutham and Perera (1995 and 1996).

¹⁰⁰ B.F. Devonport and T. van Zijl, *Standard Setting for Financial Reporting in the Public Sector: Key Events 1980-2010*, (paper delivered at the Sixth Accounting History International Conference, Wellington, New Zealand, 18-20 August 2010).

years, the accounting profession had developed accounting standards for the private sector, because that was where public pressure lay for quality external financial reporting. Now the profession began considering standards for the financial statements written to account for government activities. The Society agreed with the Audit Office and Treasury that the government should apply generally accepted accounting practices in its financial statements and found ready support from Roger Douglas, the Labour Government's Minister of Finance, for this change in public sector accounting would help the Government achieve its objective of greater accountability and transparency in public sector bodies.

The NZSA was influenced by the new economic focus in government. As part of its programme to revitalise the New Zealand economy, the Lange Labour Government introduced sweeping changes in the public sector- led by Douglas- that had significant effects on government accounting. To decrease public debt and increase efficiency and accountability, the Government reduced the size and influence of government departments, dividing them into commercial and service entities, selling some and converting some under the State Owned Enterprises Act 1986. There was a strong privatisation basis to these measures which separated government commercial and service activities. Where the New Zealand Government went further than other governments was that some public sector entities were now expected to act as if they were profit oriented.¹⁰¹

Interest in developing public sector accounting standards arose in part from criticism of the quality of financial reporting in a sector that was steadily growing in many countries, including the United States, United Kingdom, Canada, Australia and New Zealand. The Auditors-General in these countries were concerned that governments show transparency and accuracy in accounting for the use of significant resources.¹⁰² Government assets, for example, were not listed in financial statements and consequently their values and, more importantly, whether government used these assets efficiently, was unknown. There was a growing belief among those responsible for auditing government financial statements that better management and better government performance could come from changing the method of government

¹⁰¹ There are many books and papers on the Lange Labour Government's economic policies. See, for example, Boston *et al.* (1991 and 1996); Newberry (2002 and 2006).

¹⁰² D. Green and J. Singleton, *The Watchdog: New Zealand's Audit Office 1840 to 2008*, (Dunedin, 2009). For example, in New Zealand, in 1978, the Controller and Auditor General issued a report to Parliament critical of financial reporting in the public sector.

accounting so that it was similar to that used in the private sector and bound by similar accounting rules. Improving communication and the movement of accountants around the world helped to spread this belief. Similar public sector activities in countries with comparable economies and social structures also made it possible for common ideas on public sector accounting.¹⁰³

Problematically, public sector accounting standards taken from standards written for entities in the private sector could not be applied immediately to government accounts. There were differences between government and business financial reporting. Government accounting was cash based whereas entities in the private sector used accrual accounting. Government budgeting and financial statements focused on income and expenditure rather than the balance sheet. Because accounting standards were written for entities using accrual accounting, the standards had to be reviewed to see how easily they could apply to government financial statements or whether there were special considerations the profession needed to take into account. Countries approached this task in several ways.

In 1980, the FASB in the United States began developing accounting principles for non-business entities, including the public sector.¹⁰⁴ In 1984, the governing body of the FASB, the Financial Accounting Foundation, created the Governmental Accounting Standards Board (GASB) to continue this work and develop accounting standards in the public sector at state and local government levels. Accounting standards at federal level were developed by a third American standard setting body, the Federal Accounting Standards Advisory Board (FASAB). Under American legislation, public sector accounting standards were mandatory, and although developed by the accounting profession, they were issued by a body outside the profession. Unlike the accounting profession in the United States, the Canadian accounting profession's standards, which had legal backing, were issued by the profession. From 1972, the standards developed by the Canadian Institute of Chartered Accountants (CICA) were Canadian GAAP and the Institute had both private and public sector research groups developing standards.

In Australia, the profession's research body, the AARF, created the Public Sector Accounting Standards Board (PSASB) in 1983 to develop and issue public

¹⁰³ R.C. Mascarenhas in J. Boston et al (eds), *Reshaping the State: New Zealand's Bureaucratic Revolution*, (Auckland, 1991).

¹⁰⁴ W. Schuetze, 'Current Developments in Accounting,' *The Accountants' Journal*, 59:1 (1980), pp.49-59.

sector specific standards. From 1984, the PSASB worked with the ASRB.¹⁰⁵ Although the PSASB and ASRB had considered developing one set of accounting standards applicable to both sectors, the PSASB began drafting standards for the public sector.¹⁰⁶ In 1991, the ASRB was replaced by another government body, the Australian Accounting Standards Board (AASB). The accounting profession in Australia was thus actively involved in the development of public sector accounting standards. In the United Kingdom, the accounting profession, through the Accounting Standards Committee (ASC), developed and issued non-mandatory accounting standards for the private sector. Little was done by the British accounting profession during the 1980s in the area of public sector accounting. In 1988, the Dearing Report recommended that British public sector accounting standards should be within the same framework as private sector standards and that both sectors should have a similar approach to accounting standards. The Report led to changes in the United Kingdom Companies Act 1989, but these did not include sector neutral accounting standards.

There were therefore a variety of responses to developing public sector standards. In terms of timing, Canada began drafting public sector standards in the 1970s while the United States and Australia started drafting in the 1980s. Britain was a few years after this. For the most part these countries considered public sector financial reporting separately from private sector financial reporting.

At the same time as the United States and Australia, New Zealand recognised a growing need for government to use accounting standards. Unlike these countries, New Zealand did not create a separate public sector standard setting board. Instead, in 1980, the NZSA Council charged the newly created ARSB to set accounting standards for the public sector.¹⁰⁷ The NZSA had not ignored the public sector before this. From 1969, the NZSA had a Public Sector Group reporting to the Council on various public sector issues. The NZSA journal frequently published articles on public sector issues and S. Locke and R. Debreceeny edited a Public Sector News section that appeared each month in the *Journal*.¹⁰⁸ The ARSB's first step was to create a subcommittee,

¹⁰⁵ The Australian Accounting Research Foundation disestablished its private sector accounting standards committee, the Accounting Standards Board, in 1988.

¹⁰⁶ S. Locke and R. Debreceeny, 'Public Sector News,' *The Accountants' Journal*, 59:7 (1980), p.275. See also Chua and Sinclair (1994), p.689.

¹⁰⁷ S. Locke, 'GAAP for New Zealand Governmental Units now a matter of urgency,' *The Accountants' Journal*, 59:1 (1980), pp.112-114.

¹⁰⁸ Other contributors in this decade included N.V. Lough, T. Gray, D.M. Gilling and J. Chapman.

the Public Sector Study Group, chaired by D. Hutton (Audit Office), to examine issues arising from public sector financial reporting. This group worked with the Wellington Branch's Public Sector Special Interest Group. In 1981, the two groups agreed with the Council that accounting standards were needed in the public sector and these should be developed after wide consultation. The groups suggested that the standards be adapted from existing SSAPs issued by Council, but that there would need to be some standards written specifically for particular public sector problems.¹⁰⁹ In this way the NZSA could minimise the costs of producing standards for public sector entities. Ultimately, however, creating standards for the public sector in this way made it possible for the ARSB to combine regulation of both public sector and private sector entities within one set of accounting standards.

The ARSB accepted these suggestions and decided to develop public sector accounting standards based on existing SSAPs but supplementary to them. In 1984, the Public Sector Study Group issued an informal exposure draft and discussion paper of a proposed public sector accounting standard, PSAS-1 General Accounting Principles for Service Entities. These documents covered a number of accounting and reporting issues in public sector financial reporting and the ARSB encouraged feedback from interested groups. Following these submissions, in 1985 the ARSB issued Introductory Statements to Public Sector Accounting Standards, along with the first public sector exposure draft EP-1 General Accounting Principles for Use in the Public Sector.¹¹⁰ The draft sparked some debate, not least on its accountability focus.¹¹¹ As a consequence, the ARSB withdrew EP-1 and in 1986, issued simultaneously EP-2 Statement of Public Sector Accounting Concepts, EP-3 Introductory Statement to the Statement of Public Sector Accounting Concepts and Statements of Standard Public Sector Accounting Practice and EP-4 Statement of Standard Public Sector Accounting Practice No 1 Determination and Disclosure of Accounting Policies for Public Sector Service-Oriented Activities.

Meanwhile, the NZSA restructured its public sector committees, indicating the importance the association placed on drafting standards for public sector entities. The Society renamed the Public Sector Study Group the Public Sector Accounting

¹⁰⁹ D. Hutton and T. Gray, 'Public Sector News,' *The Accountants' Journal*, 60:9 (1981), p.349.

¹¹⁰ 'Promulgations,' *The Accountants' Journal*, 64:3 (1985), pp.70 and 71.

¹¹¹ T. Gray, 'Public Sector Accounting: Accounting Standards set to invade Public Sector,' *The Accountants' Journal*, 64:11 (1985), pp.48-51 and J. Gill, 'Another view of the Public Sector accounting standards,' *The Accountants' Journal*, 65:2 (1986), pp.34-39.

Committee and made it a formal subcommittee of the ARSB. The new subcommittee drafted the standard that, in 1987, the NZSA released as the first Public Sector accounting standard PSAS-1 Determination and Disclosure of Accounting Policies for Public Sector Service Oriented Activities, along with the Explanatory Foreword and the Statement of Public Sector Accounting Concepts (SPSAC). The Public Sector Accounting Committee in 1988 also issued Technical Guidance Bulletins TGB-1, TGB-2 and TGB- 3 to help interpret application of PSAS-1 and SPSAC. The ARSB's intention was to continue developing accounting standards for the public sector by adapting existing SSAPs. To help financial officers in public sector entities implement these standards and become familiar with the wider set of New Zealand Generally Accepted Accounting Principles (GAAP) as well as encourage discussion within the accounting profession for further development of public sector standards, the NZSA held three Public Sector Accounting Conventions during the 1980s.¹¹² While it drafted its own public sector standards, the NZSA was aware of public sector standards that were being developed overseas. As with standards for the private sector, the NZSA published international developments in public sector accounting. For example, in 1988, the *Journal* published an exposure draft released by IFAC on a proposed public sector guideline for Government Business Enterprises.

The passing of the Public Finance Act 1989 similarly changed the ARSB's focus. The Public Finance Act 1989 gave permanent authority to changes in New Zealand public sector accounting. The Act established the minimum financial reporting required of Government departments and Crown agencies, which was that the annual financial statements of these entities were to be prepared in accordance with New Zealand GAAP. Government accounting was now to be accrual based, not cash based. The Treasury, a strong advocate for the Government's public sector reforms, argued accrual accounting provided better information for decision-making.¹¹³ Some observers have questioned this emphasis on decision-making, noting that the government originally implemented its public sector reform programme to correct perceived low levels of financial accountability.¹¹⁴ The NZSA was not

¹¹² R. Macdonald, 'Executive Director's Report,' *1989 Annual Report*, (Wellington, NZSA, 1989).

¹¹³ The Treasury, *Putting it all together: an explanatory guide to the New Zealand Public Sector Financial Management System*, (Wellington, 1996).

¹¹⁴ N.Z. Miah, 'Attempts at Developing a Conceptual Framework for Public Sector Accounting in New Zealand', *Financial Accountability and Management*, 7:2 (1991), pp.83-97; D. Hay, 'Public Sector Accounting in New Zealand: An Update and Clarification,' *Financial Accountability and Management*, 8:1 (1992), pp.1-6.

concerned about this change in focus in the public sector. Existing standards fitted this focus because decision-making was a major reason for external financial reporting in the private sector.

Since under the Act, SSAPs were now applicable to public sector entities so the ARSB began to review all SSAPs to ensure that they could be used in both the private and public sectors. In effect, the Public Finance Act meant that the NZSA's newly drafted SPSAS and TGBs no longer applied to public sector entities that undertook commercial activities. They were now to employ the SSAPs that private sector entities used. Although the effect of the Act appeared to show that the NZSA and the Government were not working together on the changes to government accounting, individual members of the NZSA were actively involved in these government reforms. Their influence in both the government and the NZSA helped ensure the success of the radical changes in New Zealand standard setting.

Prior to the 1980s, government departments other than the Treasury, the Inland Revenue Department and the Auditor-General's Office did not employ many members of the NZSA and there was relatively little movement of NZSA members between the public and private sectors. Aware of this, the NZSA's Public Sector Study Group in 1981 exhorted those few NZSA members working in the public service to be more active in the Society and some, like T. Gray, did so in the Study and Special Interest Groups. The first government employee to be a member of the ARSB was J.W. Cameron, the Deputy Auditor General, who joined the Board in 1985. Cameron remained on the Board until 1992. Two Treasury officials also became involved in standard setting in the NZSA. I.D. Ball was on the ARSB/FRSB from 1988 until 1997 and B.W. McCulloch was on the Financial Accounting Committee from 1990 to 1993.¹¹⁵ Ball in particular, as a Treasury employee, was intimately involved in the state accounting reforms. As he explained,

...we were working to change the financial management system of the New Zealand Government and one element of that was to move the Government on to generally accepted accounting practice. The difficulty was that New Zealand generally accepted accounting practice at the time was developed for the private sector. Our view was that there were aspects of those standards that were not really appropriate for government. So, while we were moving ahead to get government to use an accrual basis of accounting, and we were wanting government to use standards that were applicable to the government, nevertheless we were also trying to make sure that the standards themselves continued to apply in the private sector.

¹¹⁵ Lye *et al.* (2005). The authors concluded that the Treasury made sure that it had representation on NZSA standard setting committees. A.L. Mckenzie said the reverse was also true and that the FRSB made sure there were government representatives on the Board. Source: A.L. Mackenzie interview 19 June 2009.

While at the beginning of that period those standards were not developed in the context of the government, progressively we got to a point where we had what we called sector neutral standards.¹¹⁶

While Treasury officials drove the government reforms and drafted the Public Finance Act, the NZSA was still closely involved.¹¹⁷ Ball and G. Scott, the Secretary to the Treasury from 1986 to 1993- who was a central figure in the reforms and also a member of the NZSA- were instrumental in government departments moving to accrual accounting.¹¹⁸ Scott and Ball had strong economics and accounting backgrounds that helped them to draft and implement the accounting systems that were part of the economic reforms in the public sector. Ball was actively involved in the Society's standard setting process, influencing and being influenced by other members of the Society's standard setting committees and Board. For him, changing the public sector accounting systems was not an end in itself, but rather a means to an end for New Zealand Governments from this time, as the new accounting system aimed to provide a better way of managing government spending and measuring performance in government activities.¹¹⁹ The Government used the NZSA to introduce accrual accounting into the public sector but the accounting profession also found in these government policies a direction receptive to the development of public sector standards. This was particularly so for those NZSA members keen to apply first principles to the lessons learned from standard setting in the private sector and to develop standards that acknowledged the similarities rather than the differences between the public and private sectors.¹²⁰

International and Other Developments

At the same time the ARSB was developing public sector standards it was strengthening New Zealand's connection with international standard setting. The New Zealand accounting profession benefited from participation in international standard setting and New Zealand was among a number of countries using international accounting standards. As a member of the international standard setting body, the

¹¹⁶ I. Ball interview 1 August 2009; For further explanation of these policies see McCulloch and Ball (1992) and The Treasury (1996).

¹¹⁷ McKinnon (2003), p.381. McKinnon referred to I.D. Ball as "...one of the 'fathers' of the Public Finance Act..." p.420.

¹¹⁸ S. Goldfinch, *Remaking New Zealand and Australian Economic Policy: Ideas, Institutions and Policy Communities*, (Wellington, 2000), p.88.

¹¹⁹ Lye *et al.* (2005); I. Ball interview 1 August 2009. See also Norman *et al.* (1997).

¹²⁰ I. Ball interview 1 August 2009; McCulloch and Ball (1992); The Treasury (1996).

IASC, New Zealand had an obligation to ensure that all international standards were exposed for comment in New Zealand and to incorporate the international standards in New Zealand standards, and it did so. The *Accountants' Journal* frequently published such statements as:

The Society participates fully in the International Accounting Standards programme, responding to all exposure drafts and carrying out a programme to incorporate international standards into the body of New Zealand standards wherever practicable. Although International Accounting Standards have no formal status in New Zealand they represent an authoritative view of appropriate accounting practices internationally and may be used as guidance as to acceptable practice in New Zealand unless they conflict with law or existing practices.¹²¹

During the 1980s, the globalisation of accounting standards reflected growing economic globalisation. In 1988, the IASC surveyed 46 countries and found 90 per cent at least had national standards or equivalent that conformed to international standards.¹²² There were many reasons for a country to adopt international standards including the growth in multinational corporations and trans-national organisations, the merging of the larger international accounting firms, the increasing importance of international capital markets and more frequent and extensive travel by academics, accountants and students.¹²³ International standards gave the profession a common accounting language, one that the New Zealand profession was well positioned to use.

Using standards developed by other countries and organisations was one way of reducing the cost of standard setting but these standards needed to be of good quality, adhering for consistency of purpose to a theoretical framework. By the end of the decade several countries were beginning to develop a theoretical basis for their accounting standards, including the United States, United Kingdom, Canada and Australia, and so, too, was the IASC. In 1987, the IASC issued the Framework for the Preparation and Presentation of Financial Statements. This statement listed the objectives of financial statements and what should be in the statements, including qualitative characteristics, identification of elements and the concepts of capital, capital maintenance and profit. The IASC wanted the framework to help in developing future international and national accounting standards. In 1989, W. McGregor, the Director of AARF, was able to say that 'conceptual frameworks are

¹²¹ 1983 *Annual Report* (NZSA, 1983), p.5.

¹²² 'Professional Briefing: Standards: Use and Application of International Accounting Standards,' *The Accountants' Journal*, 67:4 (1988), p.12.

¹²³ Zeff (1984).

the flavour of the month.’¹²⁴ New Zealand was in a good position to take advantage of what other countries and the IASC were doing to improve the quality of accounting standards. The ARSB began drafting standards aimed at forming a conceptual framework for New Zealand accounting standards, incorporating differential and public sector reporting.

Conclusion

This chapter examined the actions of the newly created ARSB as the standard setting board for the NZSA, what it did and what factors influenced its actions. These actions show a complex mix of proactive and reactive behaviour. The accounting profession, as exemplified by the NZSA, was well into its role as standard setter but continuing challenges to the nature of some standards and parts of the standard setting process affected the profession’s relationships with other groups in society, especially its relationship with the state and ultimately its own attitude towards being a standard setter.

As standard setter, the NZSA’s developments in standard setting paralleled those overseas, being influenced by similar factors and following much the same standard setting process. The international dimension in standard setting remained strong during the 1980s as did the close relationship between the NZSA and its Australian counterparts. Between 1979 and 1991, the Society showed confidence in its standard setting process and the mid to late 1980s in particular were seen by some as adventurous days for the profession.¹²⁵ Standard setting was extending into the public sector in many countries and the NZSA had an active public sector group working with the ARSB. However, as this chapter showed, the ARSB went beyond the moves to public sector standards that other countries were introducing when it helped make possible the extreme public sector management reforms of the Lange Labour Government.¹²⁶ It is evident that this occurred because Treasury officials who were on the ARSB and actively involved in the NZSA’s standard setting process were also responsible for implementing the Government reforms.¹²⁷

¹²⁴ C. MacLennan, ‘Australian Conceptual Framework,’ *The Accountants’ Journal*, 68:9 (1989), pp.30-31.

¹²⁵ T. van Zijl interview 16 July 2009.

¹²⁶ Mascarenhas (1991); Miah (1991); Chua and Sinclair (1994); Lye *et al.* (2005).

¹²⁷ Lye *et al.* (2005).

These events showed that the NZSA was willing to accept its responsibilities to ensure quality external financial reporting but events during the 1980s, inside and outside the Society, were leading the profession to agree and even suggest action that reduced its dominance in setting accounting standards. Within the NZSA the profession's attitude towards standard setting was changing. Members questioned the cost of producing standards, in both financial and personnel terms. Accounting firms were more business-like and reluctant to release personnel to help draft standards and a significant proportion of the annual membership fee was spent on standard setting. At the same time the profession's authority as standard setter was being questioned. The profession received criticism for its attempts to account for inflation, and, as Baskerville showed, also for a perceived lack of consultation in the standard setting process.¹²⁸

The profession for its part was concerned over the extent of entity compliance and entity behaviour, such as in the issue of equity accounting. As this study shows, in the past the profession in New Zealand and elsewhere had tried to consolidate the authority of the standards in a number of ways including improving the standards, strengthening accounting knowledge, making the standards more regulatory and developing financial accounting theory.¹²⁹ But economic events challenged these efforts. In New Zealand, the Lange Labour Government's neo-liberal policies created a laissez-faire private sector environment that increased concerns about entity behaviour and contributed to the 1987 share market crash. Subsequent government enquiries led, and the NZSA concurred, to government initiatives that were to reduce the accounting profession's dominance of the standard setting process. For the NZSA the Government's proposed Accounting Standards Review Board, a statutory authorising body, was a '...kind of halfway house....[and] a welcome development.'¹³⁰

The proposed changes were a halfway house for the authority of the standards but, this thesis contends, they also appeared to be a halfway house in the association's changing attitude towards standard setting as a professional accounting activity. In accepting, and even recommending reducing its domination of the standard setting process with a corresponding rise in state involvement, the profession appeared to be moving away from standard setting as a means of professionalisation.

¹²⁸ Baskerville (1997); Lee *et al.* (2009).

¹²⁹ Velayutham (1990) the AASB in Australia; Rutherford (2007), the ASC in the UK>

¹³⁰ T. van Zijl interview 16 July 2009.

Chapter Ten: Yielding control or wielding control? The Financial Reporting Standards Board 1992 to 2002

Introduction

This chapter sets out the events in standard setting during the 1990s leading to the decision in 2002 to adopt international financial reporting standards, describing the major factors affecting the course of those events and their influence on the 2002 decision. The first three sections of this chapter consider three significant events in standard setting during this decade. In 1991 the New Zealand Institute released its financial reporting framework, the first New Zealand conceptual framework for standards, and established the Institute's new standard setting board, the Financial Reporting Standards Board (FRSB). In 1993 the New Zealand Government created New Zealand's first statutory standard authorising board, the Accounting Standards Review Board (ASRB).

These events led to contradictory conclusions about standard setting in New Zealand. T. van Zijl observed that the standard setting process 'became a lot more conservative' as the Society's actions focused on responding to the challenges of entity compliance and criticism of the standards.¹ In this same decade the Society also experienced an exciting time, as K. Simpkins noted, when 'the quality of debate and the quality of thinking about difficult accounting issues and trying to find robust solutions to difficult accounting issues that will work in all the possible contexts in which that issue arises' resulted in the profession leading the standard setting world in the development of sector neutral standards.² The last two sections of this chapter discuss first this outstanding feature of New Zealand standard setting and second, the international dimension in standard setting, which was critical to the decision New Zealand made in 2002 to adopt international financial reporting standards.

The Financial Reporting Framework

Before 1991 New Zealand standards did not have a conceptual framework. The absence of a framework did not unduly concern the Institute because the overseas origins of the standards meant that they were created within the frameworks of the countries they came from. The ARSB was not setting out to create a comprehensive

¹ T. van Zijl interview 16 July 2009.

² K. Simpkins interview 15 July 2009.

theoretical framework for the standards when it responded to one idea raised in the debate over SSAP-17 Accounting for Investment Properties by Property Investment Companies, which was extending the principles of investing in property to all investments. To do this, the ARSB needed a list of definitions of the elements in external financial reports, including financial performance, income, asset and liability. ‘We tried to anchor what we were doing in what we believed at the time were appropriate definitions of the terms that were at the centre of financial reporting and tried to embrace the qualitative characteristics that we thought were important at the time to produce information that was perceived to be relevant and reliable.’³ The ARSB established a subcommittee to produce this list of definitions but the subcommittee and the Board soon realised that the subcommittee was actually producing a ‘mini conceptual framework.’⁴

The work on the framework grew until, at the end of 1991, the ARSB was able to release a package of seven exposure drafts, ED-59 to ED-65, proposing a New Zealand framework for financial reporting.⁵ ED-59 Explanatory Foreword to General Purpose Financial Reporting and ED-60 Concepts for General Purpose Financial Reporting gave the guidelines and principles of the framework. ED-59 described the role of financial reporting standards and outlined New Zealand GAAP.⁶ The NZSA issued ED-60 as The Statement of Concepts for General Purpose Financial Reporting. Of itself, The Statement of Concepts for General Purpose Financial Reporting was not an accounting standard, but it defined the elements of general purpose financial reports, in addition to the objectives, assumptions and qualitative characteristics of general purpose financial reports.

ED-61 Interpreting Concepts for General Purpose Financial Reporting for Public Sector Entities made the framework sector neutral. ED-61 related accounting standards to public sector entities, merging public and private sector financial reporting requirements. This exposure draft outlined how the framework brought the two sectors, private and public, within the one set of accounting standards.⁷

In addition to allowing New Zealand standards to become sector neutral, the financial reporting framework also introduced differential reporting. ED-62

³ D. Emanuel 9 June 2009.

⁴ T. van Zijl interview 16 July 2009.

⁵ Appendix P.

⁶ F. Devonport and Q. McNally, *A Practical Guide to New Zealand Financial Reporting*, (Auckland, CCH New Zealand, 1998).

⁷ Devonport and McNally (1998).

Framework for Differential Reporting and ED-63 Application of Differential Reporting defined and outlined the basis for entity exemptions from using standards or parts of standards. The two exposure drafts on differential reporting specified how certain entities could be exempted from complying with particular accounting standards, or parts of the standards, when the benefits of the entities using the standards was outweighed by the costs of them doing so. The ARSB had already recognised the need for some type of differential reporting for many smaller New Zealand entities found complying with accounting standards a burden of time and money. There was much debate on the issue: ‘...we have one set of standards. Everyone has to do the same thing...’ and ‘...that’s right in principle, but in practice you’ve got to recognise the very small entities and this is impossible for them to comply.’⁸ In 1989, the ARSB formed a subcommittee to study this issue whose findings were used in the writing of the exposure drafts.⁹

The final two exposure drafts in the proposed framework were ED-64 Disclosure of Accounting Policies and ED-65 Presentation of Financial Reports. These exposure drafts were the forerunners of the proposed first two standards, FRS-1 Disclosure of Accounting Policies and FRS-2 Presentation of Financial Reports in 1994. The two standards outlined the structure and general content of external financial reports.

The proposed framework was a new approach to standard setting in New Zealand. The framework was very similar to the frameworks already existing in the United Kingdom and Australia, having the same definitions of financial reporting elements found in those frameworks and, like them, aiming to give consistency and credibility to the standards.

The Society anticipated that standards developed using this framework would provide information for users of external financial reports as well as allow management to be accountable for its actions.¹⁰ After receiving feedback from those who commented on the exposure drafts and with little alteration to them, in 1993 and 1994 the FRSB released *A Proposed Framework for Financial Reporting in New Zealand*. The framework was sector neutral, had both accountability and decision

⁸ E.M. Hickey interview 9 June 2009.

⁹ R. Macdonald, ‘Executive Director’s Report,’ *1990 Annual Report*, (Wellington, NZSA, 1990), p.11. At the same time the ARSB also formed subcommittees to review SSAP-10 and administer PhD scholarships.

¹⁰ R. Jones, ‘The Development of Conceptual Frameworks of Accounting for the Public Sector,’ *Financial Accountability and Management*, 8:4 (1992), p.258.

usefulness as its objectives and, importantly for public sector entities, allowed for non-financial elements in entity external financial reporting.

The New Zealand framework was well received in New Zealand. Its success was due to its comprehensiveness and application across the New Zealand economy, which, as Lye *et al.* observed, was a result of the ARSB's three committees on the conceptual framework, differential reporting and public sector standards working from basic concepts and principles.¹¹ The three committees worked individually and then coordinated their findings, showing the level to which the ARSB and its committees were in agreement on the elements in the framework. This unanimity produced a framework that went further than the British and Australian frameworks in that it was sector neutral and thus applied in both the public sector and private sector. This was despite the framework providing 'a conceptual basis for financial reporting' rather than being a full conceptual framework.¹² Because of this quality, even today the essence of the 1992 financial reporting framework remains. As Simpkins observed, 'very few people challenge many of the fundamentals from that 1992 document.'¹³

The New Zealand Institute developed the financial reporting framework as one solution to the problem of entity compliance. In the process it produced a framework that made New Zealand standard setting innovative and gave a new focus to setting accounting standards. This work was carried out, not by the ARSB, but its successor, the FRSB.

The Financial Reporting Standards Board

The NZSA did not wait for the passing of the Financial Reporting Act before beginning changes to its standard setting process compatible with the Act and allowing the profession to focus more on creating innovative standards and less on the dual tasks of drafting and implementation. During the 1980s, the ARSB had maintained the quality of New Zealand accounting standards, and, as previous chapters have shown, it had taken that responsibility seriously.¹⁴ This was evident in the NZSA's Horizon 2000 Committee's survey of members earlier in the 1980s which

¹¹ Lye, Perera and Rahman (2005), pp.784-816.

¹² R. Macdonald, 'Executive Director's Report,' *Annual Report 1991*, (Wellington, NZSA, 1991), p.14.

¹³ K. Simpkins interview 15 July 2009.

¹⁴ Section 3 (4) (a) of the Act states 'To control and regulate the practice of accountancy in New Zealand.'

revealed that members thought standard setting was good and the Society was fulfilling its stewardship function.¹⁵ NZSA members considered that the standard setting process was strong and innovative.¹⁶ Despite the successes and strength of the ARSB, with the changing economic and political climate in New Zealand during the 1980s and pressure to take into account increasingly complex entity and user needs, the NZSA Council revised its standard setting structure.

At the end of 1992, the Council dissolved the ARSB and replaced it with two boards, the Financial Reporting Standards Board (FRSB), which dealt with financial reporting standards and the Professional Practices Board, which was responsible for the application of the standards by NZSA members. In effect, the Council divided the ARSB's responsibilities and there were now two Boards doing the work of the ARSB, with each Board focussing more narrowly than had the ARSB.¹⁷

Naming the Board responsible for developing accounting standards 'Financial Reporting Standards Board' suggests that the NZSA was highlighting a change in emphasis in standard setting and focussing its resources more efficiently. The standard setting process always had the quality of external financial reports in mind but now the NZSA wanted to show that it was concentrating less on the inputs to financial reporting, the accounting standards, and more on the outcomes, the financial reports. This change in emphasis reflected the government's aims in the Financial Reporting Act and a broader economic shift in focus from inputs to outcomes in both the private and public sectors of the New Zealand economy. The government sought more accountability from both sectors through a greater level of compliance with accounting standards and more clarity in financial statements. New Zealand standards were now to aim for accountability more than stewardship in external financial reporting.

The NZSA Council could also see that the proposals in the Financial Reporting Act would mean a greater level of work for the ARSB, and more pressure on the Society's resources.¹⁸ This was in addition to the extra work entailed in applying the Society's own newly drafted framework that required the ARSB to review all standards. The ARSB began this review, but the FRSB had the additional

¹⁵ L. McLean, 'Horizon 2000: The setting and enforcement of accounting standards and research,' *The Accountants' Journal*, 63:2 (1984), pp.82-83.

¹⁶ J. Hagen interview 4 June 2009.

¹⁷ D. Pryde, 'Chief Executive's Report,' *Annual Report 1993*, (Wellington, NZSA, 1993), p.8.

¹⁸ D. Pryde, 'Chief Executive's Report,' *Annual Report 1993*, (NZSA, 1993), p.8.

task of checking that all the standards conformed to the Act as well as to the framework. This was a challenge because NZSA resources for standard setting continued to be limited. Staff were employed by the NZSA to support the FRSB but they were few in number and members of the FRSB itself were part time volunteers with full time jobs elsewhere. NZSA support staff were conscious of the time put in by the volunteers and did what they could to reduce the work Board members needed to do.¹⁹ The NZSA employed A.L. Mackenzie to give research support to the FRSB from 1993 to 2002, as well as support from other personnel within the Society's Accounting and Professional Standards Department.²⁰ Mackenzie and others in the Department drafted and maintained Financial Reporting Standards (FRS), the standards replacing SSAPs as they were reviewed, and other documents relating to the standards as well as coordinating FRSB and subcommittee meetings.

The Council expected the FRSB to prepare accounting standards and issue interpretations of the standards, do research in financial reporting and consult representatives from groups concerned with financial reporting.²¹ The FRSB's first task was to revise the set of accounting standards. Although part time, the members of the FRSB were experienced because the FRSB was in effect the former ARSB. Ten of the twelve new FRSB members were on the ARSB. There was, therefore, no significant change in the varied composition of Board members. Public accountants were the greatest in number, as they had been on the ARSB. The FRSB also had academics, members from industry and commerce and representatives from the public sector. In its first year of operation, four members of the FRSB were from large accounting firms, three were from the public sector, three from industry and commerce and one was an academic.²²

The FRSB had four subcommittees: Research, Primary Sector Accounting and the Financial Reporting Committees 1 and 2. The Research Committee's task was to allocate funds to individuals carrying out research in accounting and the Primary Sector Accounting Committee concentrated on issues in farming. The task of the

¹⁹ E.M. Hickey interview 9 June 2009; K. Simpkins interview 15 July 2009.

²⁰ A.L. Mackenzie was Technical Director from 1993 to 1995, Director of Accounting and Professional Standards from 1995 to 1998 and Divisional Director-Policy from 1998 to 2002. In 1996, there were 5 Project Managers. 3 of the 5, R. Baskerville, S. Walker and M. Westwood, dealt with Financial Reporting. Source: A.L. Mackenzie, 'Functions of Accounting and Professional Standards Department,' *The Chartered Accountants' Journal*, 75:4 (1996), pp.63-64.

²¹ R. Macdonald, 'Executive Director's Report,' *1992 Annual Report*, (Wellington, NZSA, 1992), p.12.

²² *NZSA Yearbook* 1992/3.

Financial Reporting Committee-1 was to alter current SSAPs and reformat them into Financial Reporting Standards (FRSs). The Financial Reporting Committee-1 ensured that FRSs were consistent with legislation, including the new Financial Reporting Act, and updated the accounting standards to make them sector neutral. This was part of the process of merging public and private sector standards under the financial reporting framework while keeping in mind the NZSA's goal of greater harmonisation with Australian and IASB standards. The Committee also was responsible for reformatting all the accounting standards before submitting them to the FRSB. The task of the Financial Reporting Committee-2 was to review submissions on the conceptual framework and finalise conceptual framework documents.²³ As with the FRSB, the two Financial Reporting Committees had wide representation from several areas of accounting, which allowed for good communication of ideas and comments from Society members in those areas as well as the committees having the benefit of differing viewpoints on issues. In their first year, the combined Financial Reporting Committees had six members from public accounting firms, five from industry, in the main, large corporations, three from the universities and three from the public sector.²⁴

The FRSB and its subcommittees had a system similar to that of the ARSB and its subcommittees.²⁵ NZSA employees helped the subcommittees' research and draft the standards. The FRSB studied and reworked the draft standards and submitted them to Council for approval before sending the standards to the Accounting Standards Review Board. Any standards or statements approved by the Council alone, such as the Statement of Concepts for General Purpose Financial Reporting, did not have the same authority of those approved by the ASRB. The FRSB also issued on its own authority Technical Practice Aids and Research Bulletins. The FRSB therefore concentrated on updating the current set of accounting standards so that they were sector neutral, as outlined within the framework, and, importantly, developed a good working relationship with the independent ASRB.

The FRSB or Council rarely changed the standards drafted by the subcommittees. There was little reason for any changes because the subcommittees

²³ D. Pryde, 'Chief Executive's Report,' *NZSA Yearbook 1993/4*, p.128.

²⁴ *NZSA Yearbook 1992/3*.

²⁵ B. Porter, 'A standard is born,' *The Accountants' Journal*, 69:9 (1990), pp.25-33.

usually based the new standards on existing international or overseas standards.²⁶ When the FRSB did disagree with a draft standard proposed by a subcommittee the reaction of the subcommittee could be swift and fierce. In 1996, the FRSB ordered the committee to redraft ED-82 Accounting for Property, Plant and Equipment. When the FRSB sent the altered exposure draft to Council, the Council disagreed with the FRSB's version and rejected the draft, ordering further reworking. The subcommittee's first version, based as it was on the international standard and released in 1998, was more acceptable to affected entities and the Council. The Council's objections to the redrafted ED-82 were unusual because Council members rarely recommended changes to a standard. They did not always have the experience or specialised knowledge to be able to query the FRSB's recommendations. In the case of ED-82, intense lobbying from members of the Financial Reporting Committee-1, who had objected to the changes the FRSB made to their original draft, influenced the Council.²⁷ ED-82 was an exception. Council accepted FRSB recommendations without comment so often that the Chair of the FRSB was not always present at the Council meetings that approved a standard.²⁸

As part of its process of developing standards, the FRSB welcomed comments from organisations outside the NZSA. Usually any submissions or suggestions came from independent statutory bodies such as the Securities Commission and Reserve Bank or government departments, such as the Ministry of Commerce and Treasury. More rarely, the Stock Exchange commented on exposure drafts.²⁹ Formal lobbying by interested parties was less evident in New Zealand and this may be a result of New Zealand's small population size. Communication between individuals or entities was easier than in larger populations. There were fewer people involved in developing standards and preparing and using financial reports and they were likely to meet each other frequently. Consequently, formal lobbying by entities was less important in New Zealand than overseas. The larger entities had representatives on the FRSB or its subcommittees, as they had been on previous NZSA standard setting boards and committees. Lobbying did occur. For example, when the FRSB was drafting ED-85 Financial Reporting of Insurance Activities in 1998, insurance companies made strong

²⁶ Copying is 'the most basic method of policy transfer' and lends confidence to what is being copied. Source: S. Goldfinch and P. Mein Smith, 'Shared State Experiments,' in Mein Smith, Hempenstall and Goldfinch (2008), p.96.

²⁷ K. Simpkins interview 15 July 2009.

²⁸ Ibid.

²⁹ In 1999, the Ministry of Commerce was renamed the Ministry of Economic Development.

submissions to the FRSB.³⁰ As a result, the FRSB withdrew the exposure draft in 2000.

In effect the FRSB organised standard setting for the accounting profession. The NZSA retained control over standard setting because the FRSB was the only body in New Zealand to submit accounting standards to the ASRB for approval. This was despite the Financial Reporting Act making it possible for any organisation to present draft standards to the ASRB and may show the confidence organisations and entities interested in accounting standards had in the FRSB to produce effective accounting standards.³¹ Equally, other organisations may have been reluctant to incur the costs of producing a standard and going through due process. The FRSB was therefore essential to the success of the standard setting process because the ASRB was a standard approving body only, unable under the legislation to draft standards itself. If the ASRB wished to see amendments to an accounting standard, it had to persuade the FRSB to make the alterations.³² Between 1993 and 2004, the FRSB referred 29 accounting standards to the Account Standards Review Board for approval.³³ In addition, the FRSB issued the exposure drafts that preceded the standards, several Interpretations, Technical Practice Aids and Guidance Notes.

In 1993, the Financial Reporting Committee-1 began reviewing SSAPs and converting them to Financial Reporting Standards (FRSs). The Society decided to rename SSAPs in part because the United Kingdom had renamed their SSAPs as FRSs and in part because, as with the naming of the FRSB, the term financial reporting standard emphasised the outcome of external financial reporting statements.³⁴ Britain began changing its standard setting regime in 1990, just before the NZSA made its alterations, creating the Accounting Standards Board (ASB) to replace the Accounting Standards Committee (ASC). In 1991, the ASB released the first FRS, on the source and application of funds. The following year, the ASB released FRS-2 on group accounts and FRS-3 on extraordinary items and prior period adjustments.

The FRSB's FRSs did not follow the order of topics of the British ASB's FRSs. The FRSB released its first Financial Reporting Standards in 1993: FRS-29

³⁰ E.M. Hickey interview 9 June 2009.

³¹ Financial Reporting Act 1993, Section 24.

³² K. Simpkins interview 15 July 2009.

³³ Appendix T.

³⁴ K. Rushbrook, 'Reply to letter from NZSA member,' *The Accountants' Journal*, 72:5 (1993), p.12.

Prospective Financial Information and FRS-31 Disclosure of Information about Financial Instruments. FRS-29 was not submitted to the ASRB as the content of the standard was outside the scope of the ASRB and hence this FRS did not have the authority of standards released by the ASRB. FRS-31 was intended as an interim measure and the FRSB expected that a comprehensive standard would eventually be prepared for submission to the ASRB. There does not appear to be a particular reason for the release of these two standards as the first FRS. They were on the agenda of the ARSB and due for review. ED-66 Disclosure of Information about Financial Instruments preceded FRS-31. ED-66 was the first exposure draft issued by the ARSB after it had released the seven exposure drafts that formed the framework package. It was also the last exposure draft issued by the ARSB before the Board was replaced by the FRSB.

The rate of progress of the FRSB's review programme varied according to the complexity of the standards under review. In 1994 and 1995, the FRSB produced more FRSs than in the subsequent two years because the SSAPs reviewed were relatively straightforward. In 1994, the FRSB issued, and the ASRB approved, nine New Zealand FRSs. However, in 1996 and 1997, the FRSB was reviewing complex SSAPs, requiring broader consultation and longer study. Consequently, the FRSB recommended fewer FRSs to the ASRB. The FRSB persevered and ten years after beginning the review, in 2003 the FRSB replaced the last SSAP, SSAP-28 Accounting for Fixed Assets. The FRSB recognised that the rate of review had slowed but continued to stress that this was necessary. The 'standards [were] aiming to be representationally faithful' and of a high quality.³⁵ By 2004, the FRSB had drafted and the ASRB had released 40 financial reporting standards.

In the three years preceding 2004, the FRSB released the final issues of a number of explanatory papers supporting and interpreting New Zealand standards including exposure drafts, technical practice aids and interpretations. In October 2003, the FRSB issued the last of the exposure drafts, ED FRS-34A Life Insurance Activities and ED FRS-35A Financial Reporting of Insurance Activities, in October 2003.³⁶ The FRSB released its final interpretation on New Zealand accounting standards, Consequential Amendments to Financial Accounting Standards, in 2001, and in 2002, the last Technical Practice Aid, TPA-9 Service Performance Reporting.

³⁵ A.L. Mackenzie, 'Setting Standards,' *The Chartered Accountants' Journal*, 74:10 (1995), p.3.

³⁶ Appendices P and T.

As is evident in previous chapters, prior to these early years of the twenty first century, the FRSB and its predecessor bodies had written almost all the 40 standards in New Zealand GAAP by adapting standards developed overseas. The standard drafting committees in several countries, including the United Kingdom, Australia and New Zealand, were working on basically the same topics at the same time so it was relatively easy for the Institute boards to make use of standards from elsewhere. Between 1993 and 2004, the FRSB, for example, looked widely when reviewing and drafting accounting standards, frequently using Australian, British and Canadian standards as well as international standards issued by the IASC. ED-82 Accounting for Property, Plant and Equipment, for example, was an adaptation of an international standard and FRS-29 Prospective Financial Information had its origins in Canadian accounting standards.³⁷ The FRSB considered United States standards less often because of their length and complex nature.³⁸

When adapting standards from overseas for New Zealand conditions, the FRSB's approach was to use a mix of principles based accounting standards: in effect a 'cookbook' approach.³⁹ This mix worked within the New Zealand legislative and social environments and ensured that New Zealand standards were suitable for New Zealand entities. On the continuum between fully prescriptive standards and totally principle-based standards, E.M. Hickey considered New Zealand to be towards the principles end.⁴⁰ This was understandable given the Institute's preference for standards issued by the United Kingdom and Australia. The FRSB considered that a mix of types of standards, even if inclined towards principle-based standards, was the best way of providing enough guidance for entities to produce useful financial reports and at the same time allow accountants to continue to exercise professional judgement.⁴¹

The role of the FRSB as standard setter during the 1990s and early 2000s was little different from that of the ARSB. The FRSB produced standards adapted from overseas standards, as had the ARSB, and the FRSB maintained the profession's close link with the Australian standard setting boards. In this respect, therefore, the New

³⁷ FRS-29 Prospective Financial Information 1993, revised 1996, came about following pressure from the Securities Commission. Source: K. Simpkins interview 15 July 2009.

³⁸ T. van Zijl interview 16 July 2009.

³⁹ F. Devonport, 'Update Forum: Approaching Standards,' *The Chartered Accountants' Journal*, 75:2 (1996), p.41.

⁴⁰ E.M. Hickey, 'Future Standards,' *The Chartered Accountants' Journal*, 77:6 (1998), p.1.

⁴¹ F. Devonport interview 19 May 2007.

Zealand Institute's role in standard setting remained the same as before. The Institute dominated standard setting in New Zealand as in the United Kingdom and Australia. But the 1990s were different for the Institute than in previous decades. New Zealand standards, unlike in the United Kingdom and Australia, were sector neutral under the Financial Reporting Act 1993 and the Institute's financial reporting framework. However, New Zealand standards were mandatory, just as they were elsewhere. Consequently, the standards had more authority. This change meant that the FRSB, unlike the ARSB but now like its counterpart standard setting committees elsewhere, worked with a statutory board, the ASRB. The profession-state relationship in standard setting was different from before.

The Financial Reporting Act 1993 and the Accounting Standards Review Board

The 1993 Financial Reporting Act and the creation of the Accounting Standards Review Board separated the accounting profession's drafting of accounting standards from the process of authorising the standards, with little diminution of the NZSA's dominance of standard setting. The Act was introduced by the Bolger National Government which continued many of the policies of the previous reformist Labour Government.

The Act made accounting standards compulsory for New Zealand reporting entities. Prior to 1993, the Companies Act made it mandatory for entities to produce financial statements that gave a true and fair view of their activities. However, New Zealand entities did not have to use accounting standards when preparing their external financial reports to achieve this and of those who did use accounting standards, many entities were selective and irregular in their use of the standards, as was evident with CCA-1 and SSAP-17. The problem for the accounting profession was not the quality of the standards, which were intended to provide definitive guidance on true and fair external financial reporting, but ensuring compliance. The NZSA was able to develop accounting standards but not to impose them on anyone other than its own members. Until the 1980s, the NZSA was undecided about how to enforce compliance with accounting standards. The NZSA considered several options such as the standards developed by the Society receiving legislative backing or the government establishing a standard approving body separate from the Society. So too did three government inquiries.

The reports to government from the Securities Commission, the Law Commission reviewing the Companies Act, and the Ministerial Committee of Enquiry (Russell Committee) into the share market proposed, among other recommendations, variations of an independent body for authorising standard setting.⁴² The NZSA favoured an independent body to authorise standards although some members were wary of losing control of a process that they considered was the responsibility of the accounting profession. While supporting the concept of an independent standard approving body, these members continued to remind colleagues that setting accounting standards was a privilege they must guard carefully.⁴³ They saw standard setting as a responsibility of the profession and hence a professional activity. However, the advantages of an independent body were many, not least standards having more authority, becoming mandatory and increasing entity compliance.

The NZSA may have looked favourably on the concept of a statutory body authorising standards but it did not envisage that body acting without input from the profession. The NZSA persuaded the Securities Commission and New Zealand Stock Exchange to present jointly with it a submission to the Ministerial Working Group on Securities Law Reform, which was considering the recommendations from the three enquiries.⁴⁴ The joint submission proposed a body separate from the NZSA to authorise standards that had legislative backing, and that this body have up to 40% of its members from the NZSA.⁴⁵ The result of this ministerial inquiry was the Financial Reporting Bill.

The Financial Reporting Bill defined New Zealand GAAP, requiring issuers of securities to the public to file financial statements that complied with GAAP and gave a true and fair view of the financial affairs of the entity. The NZSA supported the Financial Reporting Bill because, in addition to having accounting standards apply to companies and other public issuers, the Bill gave new authority to New Zealand accounting standards by creating a Crown entity, the Accounting Standards Review

⁴² As outlined in the previous chapter, the 1997 Russell Report recommended a body similar to the British Accounting Standards Board to approve accounting standards that were mandatory for companies to use while the Law Commission recommended Securities Commission monitoring of a similar body. For details of the recommendations of the three enquiries see P. Hays editorial in the *Accountants Journal*, June 1990, pp. 1 and 3 and Keenan (2000).

⁴³ J.M. Ott, 'President's Report,' *79th Annual Report and Accounts*, (Wellington, NZSA, 1987), p.11.

⁴⁴ The Working Group's recommendations to Government became the Financial Reporting Act 1993.

⁴⁵ 'Society's submission on Securities Commission Report,' *The Accountants' Journal*, 69:6 (1990), pp.25-27.

Board (ASRB) and giving legal force to accounting standards approved by the Board.⁴⁶

The Bill was passed as the Financial Reporting Act in 1993. The Society supported the Act even though the Society's role in standard setting remained at developing accounting standards, not approving them or giving authority to the standards and it did not get the specific representation on the ASRB it wanted.⁴⁷ The NZSA was indirectly represented on the ASRB because, although they were not there as members of the NZSA, the majority of the members of the new Accounting Standards Review Board were NZSA members. These individuals were also on an interim body, the Accounting Standards Advisory Committee, the New Zealand Government established to help set up the ASRB and became the founding members of the ASRB.⁴⁸

In its first year, six of the seven Board members were members of the NZSA: J. Hagen, who was the first Chair of the Accounting Standards Review Board, P.L. Hays, R. Hill, T. van Zijl, J. Anderson and I.D. Ball. The remaining member of the Board was from the legal profession.⁴⁹ The presence of these particular NZSA members meant that in its first years the Accounting Standards Review Board had members who had been in the NZSA's own standard setting boards, helping to prepare the standards the ASRB was now considering authorising. They were members who understood the intricacies of the standards. Most probably the initial ease with which the Accounting Standards Review Board approved standards was because of this overlap of membership.⁵⁰

But having six of the seven Accounting Standards Review Board members from the NZSA could leave the NZSA open to criticism that it controlled the ASRB. T. van Zijl, one of the NZSA members on the ASRB, acknowledged that it appeared as if the Society ruled the Board, even though the Board was supposed to be independent of the accounting profession. ‘..[I]n principle that could be seen as being undesirable and I think in practice it probably was undesirable, but in terms of getting

⁴⁶ Ibid.

⁴⁷ B. Porter and K. Simpkins, ‘Securities Commission Report: a Blueprint for the Future?’ *The Accountants’ Journal*, 69:5 (1990), pp.16-20; J. Timpany and R. Whiting, ‘ASRB- Accounting Dominance or Not?’ *The Accountants’ Journal*, 76:2 (1997), p.64.

⁴⁸ John Hagen, a former President of the NZSA and Chair of the Accounting Research and Standards Board was Chair of the Advisory Committee and later the ASRB.

⁴⁹ Appendix J. Hays, Ball and van Zijl were concurrently members of the FRSB.

⁵⁰ T. van Zijl interview 16 July 2009.

that structure into operation it probably was desirable.’⁵¹ M. Bradbury agreed. ‘It made the process work.’⁵² The history of the Australian Accounting Standards Board (AASB) was a reminder of what could happen otherwise. When the Australian Government created the ASRB in 1984, the Board spent two years discussing with the AARF how to define its roles and authority in standard setting before being able to begin the new process of standard setting in Australia.⁵³ M. Keenan concluded that the NZSA had indeed taken control of the new ASRB, but that this was not regulatory capture. Rather, he said, it was a case of a regulatory authority gaining delegated legislative authority for its work.⁵⁴ It was also probably a matter of a small country with a relatively small pool of experienced and qualified personnel capable of creating an effective ASRB.

The diverse occupations of the NZSA members who were on the Accounting Standards Review Board supported Keenan’s conclusion. The NZSA membership of the ASRB reflected the broad areas of accounting in New Zealand: van Zijl, for example, brought an academic approach to Board deliberations while Ball brought a public sector approach and Hays represented the views of accountants in the private sector. These members were therefore able to bring a variety of points of view and give depth to ASRB deliberations that came in part from their continuing involvement in the Society’s standard setting body, the FRSB. Overlapping membership allowed a positive working relationship between the FRSB and the ASRB from which standard setting in New Zealand benefited. These advantages outweighed the disadvantage of a possible perception that the accounting profession controlled standard setting in New Zealand. Overlapping membership continued through the decade without criticism of NZSA domination.⁵⁵

The Accounting Standards Review Board immediately began reviewing standards. By the end of its first year, the ASRB had approved 14 financial reporting standards.⁵⁶ There were no controversies surrounding these standards because the FRSB and ASRB acted promptly to approve standards and the two Boards complemented each other. The FRSB was anxious that NZSA members supported the use of the now mandatory accounting standards approved by the ASRB. In 1994, J.

⁵¹ Ibid.

⁵² M.E. Bradbury interview 4 June 2009.

⁵³ G. Tower, ‘The Web of Regulation Unfolds,’ *The Accountants’ Journal*, 68:4 (1989), p.17.

⁵⁴ Keenan (2000), pp.93-119.

⁵⁵ Appendices I and J.

⁵⁶ AppendixT.

Hagen and A.L. Mackenzie encouraged NZSA members to follow the standards and stressed that members follow the spirit of ASRB approved standards, not just the 'black letter.'⁵⁷ Interpreting a standard according to the intention of its creators, rather than the intention of the words was how the accounting profession usually worked. Now that accounting standards had legislative backing it was possible that there could be differences of interpretation when legal issues arose. Hays noted that entities could have some problems using standards because the legal profession interpreted the letter of the law but the accounting profession the spirit.⁵⁸ Hays was concerned that these differences in interpretation could become significant. However, New Zealand courts did not need to make a decision on any differing interpretations of New Zealand accounting standards. In part that may be because the cooperation between the ASRB and the FRSB helped ensure the quality of the standards.

This cooperation extended to the relationship of the ASRB and FRSB with their Australian counterparts. Under the Act the ASRB was to remain aware of international developments in standard setting, emphasising the importance of New Zealand standards incorporating overseas trends. However, the New Zealand Government was also determined to advance the movement towards a common market with Australia and directed the ASRB to consider harmony with Australian standards. The NZSA was already working with Australian accounting organisations on standard setting and using international standards as a base for New Zealand standards so the ASRB's goals were in keeping with the New Zealand accounting profession's objectives.

The creation of the ASRB brought New Zealand standard setting into line with Australian and British standard setting, where the profession drafted accounting standards and a statutory body authorised them. But the change in the standard setting process also brought into question the extent to which standard setting could be deemed a professional accounting activity. In New Zealand before 1993 the Institute controlled the entire standard setting process. With the profession monopolising standard setting and acting to maintain its dominance by reviewing and altering standards as necessary and developing financial accounting theory and conceptual

⁵⁷ J. Hagen, 'Mandatory Accounting Standards- A New Regime,' *The Chartered Accountants' Journal*, 73:6 (1994), p.3; A.L. Mackenzie, 'More Enforcement Needed,' *The Chartered Accountants' Journal*, 73:7 (1994), p.3.

⁵⁸ P.L. Hays, 'Accounting Standards Review Board: More Controversy Likely,' *The Chartered Accountants' Journal*, 74:6 (1995), pp.18-21.

frameworks to give standards more credibility, standard setting was a recognised professional activity.

Changing the profession-state relationship by having statutory bodies suggested that the profession was reducing the status of standard setting as a professional activity. As Velayutham and Perera observed, the establishment of the ASRB could be viewed as an example of deprofessionalisation.⁵⁹ If this were so, the ASRB was a challenge to the dominance of the NZSA in an area that the profession had accepted as its own. Equally, as Keenan observed, this may not be so.⁶⁰ The profession's role in standard setting in New Zealand had not altered with the introduction of the ASRB. The NZSA never had legislative authority for its standards and even with the Financial Reporting Act was still able to release standards as before although these standards were not compulsory. Also, the profession continued to dominate standard setting in New Zealand because NZSA members, who were former ARSB members, were in the majority on the ASRB.

The profession remained a standard setter and in the case of the New Zealand profession spent the 1990s focussing on making New Zealand standards sector neutral.

Sector Neutrality

The accompanying state focus on external financial reporting was part of a general social and economic shift to measuring outcomes in the public sector, such as health and education. Secondary schools, for example, were judged according to student examination results. Similarly, public sector entities were expected to be accountable through their external financial reporting.

The idea of sector neutral accounting standards received more admiration than criticism at this time. Sector neutrality was the outstanding characteristic of New Zealand standards in the 1990s and the first half of the 2000s, following the release of the 1992 financial reporting framework. The concept of sector neutral standards was innovative and New Zealand led the world in developing them.⁶¹ The standards were notable for their scope and consistency, possible because the principle of sector neutrality was that accounting standards had regard to the nature of an entity's

⁵⁹ Velayutham and Perera (1996).

⁶⁰ Keenan (2000).

⁶¹ S.M. Newberry, quoting Ferlie et al (1996) in *New Zealand's Public Sector Financial Management System: Financial Resource Erosion in Government Departments*, (Canterbury 2002), p.7.

business transaction, not the type of entity carrying out the transaction. That is, ‘like transactions were accounted for in a like manner, irrespective of the sector in which the reporting entity operated.’⁶² The concept worked because most financial activities in the public and private sectors operated in this way.

Introducing a public sector element in standard setting also consolidated the accountability function of external financial reporting. As stated before, in its early days of standard setting the New Zealand profession followed the British emphasis on stewardship in external financial reporting and ensuring that the reports were decision useful. The accountability objective was always present but was not the primary objective. However the public sector reforms of the 1980s and 1990s demanded accountability from public sector entities and this objective was now firmly stated in the FRSB’s *Framework for Financial Reporting in New Zealand*. As Bradbury and Baskerville noted, the FRSB saw accountability as a legitimate objective in both the private and public sectors with directors accountable to shareholders and Ministers to Parliament.⁶³

Developing accounting standards on a sector neutral basis resulted in New Zealand accounting standards being more robust than would otherwise have occurred.⁶⁴ The FRSB had to consider a wider range of economic activities and transactions than if standards were just for either the public or private sectors. For example, the FRSB when defining control in an entity had to take into consideration control not just in the sense of one entity owning another but control in an entity that was funding based rather than in a shareholding based relationship. The result in this example was FRS-36 Accounting for Acquisitions Resulting in Combinations of Entities or Operations, released in 2001. Another bonus from adopting sector neutral standards was that the accounting connection between the two sectors became stronger. Government departments began employing more professionally qualified accountants and it was easier for professional accountants to move between the public and private sectors. Thus, by the end of 2003, the New Zealand accounting profession had developed a set of accounting standards that in their extent were unique to this country, comprehensive and consistent and within a New Zealand financial reporting framework.

⁶² J. Perry, K. Crook and J. Yeoh, ‘Standard-setting alive, well in NZ after IFRS,’ *The Chartered Accountants’ Journal*, 87:6 (2008), p.18.

⁶³ Bradbury and Baskerville (2007), p.13.

⁶⁴ M.E. Bradbury interview 4 June 2009; E.M. Hickey interview 9 June 2009.

Sector neutral standards were possible, in New Zealand and at this time, because a number of factors, some external to the profession and some internal came together at the one time. Such a set of standards was possible because of the small size of the New Zealand population. Consequently public and private sector people talked to each other and agreed on approaches to issues such as accrual accounting in the government sector. The most significant external factor was the Lange Labour Government and its neo-liberal policies that included reform of the public sector to make it more like the private sector. The Institute in effect helped implement government policy in assisting the public sector to adopt accrual accounting methods. Through the influence of individuals such as Ball the Institute also shaped the reforms determining the details of how public sector entities accounted for their actions. Investors and private sector entities were unaffected by these changes for sector neutral standards were still written for private sector entities even though the conceptual framework the ARSB produced that established sector neutral standard was influenced by the work of the Institute's public sector committee. This committee galvanised the ARSB into producing the framework for it was already considering a framework in which to set the public sector standards it was drafting and some of the public sector personnel on the public sector committee were now on the ARSB.⁶⁵

The standards were well received and the framework considered robust but there were soon criticisms of the application of the sector neutral framework in the public sector. As early as 1996 Boston *et al.* were noting the disadvantages of the new managerial, outcomes base in public sector decision-making with its emphasis on contracts and contestability.⁶⁶ In the following decade many New Zealanders were dismayed by the rapid increase in managerial levels in public sector entities, the large proportion of time and money that seemed to go into entities bidding for resources rather than being used to carry out the work of the entities and the restructuring of public sector entities that often made people redundant. Other researchers questioned the advantages of implementing sector neutral standards in the public sector. J. Pallot was concerned that the government continue to acknowledge its responsibility to the 'public' in public management.⁶⁷ Ellwood and Newberry agreed. From their study of the New Zealand and United Kingdom financial reporting frameworks they concluded

⁶⁵ E.M. Hickey interview 9 June 2009.

⁶⁶ Boston *et al.* (1996).

⁶⁷ Newberry (2006), p.2.

that the profit making, private sector emphasis in standard setting was unsuitable for public sector entities.⁶⁸ Newberry also noted the selective use of accounting methods in government organisations that reduced their ability to maintain capital and S. Goldfinch criticised the Treasury for failing to realise that private sector uses of accounting methods were sometimes questionable.⁶⁹

Baskerville and Newby, in their study of the impact of FRS-9 Information to be Disclosed in Financial Statements on public sector entities, concluded that although the Board's standard setting process included consultation this was not sufficient for the Board to anticipate or identify entity opposition to disclosure of top management remuneration.⁷⁰ The Board's due process was created for private sector entities and the process had been altered over the decades as it was applied in the private sector. Many public sector entities were not used to the consultation process and were not expecting to participate in the process for the public sector usually operated on a top-down system of directions and orders. Nor were public sector entities experienced in understanding the implications of the standards being produced. The due process failure identified by Baskerville and Newby may be the result of the Board not understanding the differences in operations between the private and public sectors. These critiques came from research which was possible and provable only after the public sector began applying private sector values. Consequently the implications of their research became apparent during the mid 2000s when the government was reviewing New Zealand's financial reporting framework and the Auditor-General's Office was questioning the usefulness of the public sector's continuing to follow sector neutral standards.

Although the standards had many advantages there were difficulties in trying to maintain one set of standards applying to all entities. Some public sector entities, such as schools, and many smaller private sector entities had difficulty applying the standards. The differential reporting regime that applied standards on a cost/benefit basis went some way in the short term to alleviate the concerns of smaller entities but, as noted in the next chapter, these concerns became greater, as did increasing

⁶⁸ Ellwood and Newberry (2006).

⁶⁹ S.M. Newberry, *New Zealand's Public Sector Financial Management System: Financial Resource Erosion in Government Departments*, (Canterbury, 2002); S. Goldfinch, *Remaking New Zealand and Australian Economic Policy: Ideas, Institutions and Policy Communities*, (Wellington, 2000), p.98.

⁷⁰ Baskerville and Newby (2002).

problems experienced by public sector entities with the new standards based on international financial reporting standards.⁷¹

In the years after the introduction of sector neutral standards government demands on public sector entities increased. The reporting framework allowed for both financial and non-financial information but the statements containing financial information were compulsory and non-financial information was voluntary. To the private sector non-financial information included comments explaining or interpreting the financial information.⁷² The situation was different for the public sector. Public sector reporting, with its ultimate aim of being accountable to Parliament and the New Zealand public, had broader accountability that came from this greater number of stakeholders. Consequently public sector entities were directed to produce general purpose financial reports (GPFR) that contained both financial and non-financial information and more importantly, non-financial information that covered a much wider range of issues than the private sector at this time needed to consider.⁷³ GPFR allowed for this information to satisfy a wide range of users with many and varied requirements. Non-financial information formed the basis of the Statement of Service Performance, a statement in which entities outlined their objectives and goals as directed by the government and the extent to which these were met. These goals for public sector entities were different from those expected of private sector entities. One important objective for public sector entities, for example, was how they met Treaty of Waitangi obligations. Requirements such as these in public sector reporting broadened the differences in expectations in external financial reporting for public sector entities and private sector entities and the Auditor-General's Office became more critical of the ability of the standards to enable public sector entities to fulfil government demands.⁷⁴

The introduction of sector neutral standards may tell us more about the state than about the New Zealand accounting profession as changes were greater in the public sector than in the standard setting process. Sector neutrality fitted well the concept of a public sector operating along the lines of a private sector, for the public sector reforms emphasised a private sector distinction between service provider and

⁷¹ See, for example, Newberry (2002).

⁷² Today, private sector entities provide non-financial information on many issues affecting the entities, especially issues concerning how 'green' the entity is.

⁷³ Brady (2009).

⁷⁴ Brady (2009).

service demander and hence an outcomes rather than inputs focus in external financial reporting. The accounting profession provided one means for the government to achieve its aims, a means supplied by Treasury officials such as Ball through their participation on the ARSB. In effect, the accounting profession supplied legitimacy to the government reforms, showing how the public sector could be accountable to Parliament for its expenditure and providing the government with financial information it could use to control the sector. The profession did not have to be coerced into accepting sector neutral standards. It was a willing partner with the state for it maintained its status as standard setter, extended now into more of the New Zealand economy and gained state authority for the standards.

The impression gained from the interviews undertaken for this thesis is that the profession did not consider sector neutral standards as the future of standard setting world wide. Rather sector neutrality was a consequence of the political and economic environment in New Zealand at the time. No other country had a government that was implementing such far-reaching public sector reforms. The New Zealand accounting profession helped implement those reforms but that did not mean the New Zealand profession considered that it was different from the profession elsewhere in standard setting. In part this could be because to the profession overseas, sector neutral standards were seen within the frame of extreme economic reforms not implemented elsewhere. Also, the neo-liberal policies that the government reforms comprised did not produce the promised economic growth as several researchers, including Hazledine and Quiggan, confirmed in their study of the New Zealand and Australian economies.⁷⁵ Thus, having sector neutral standards did not alter the New Zealand profession's standard setting relationship with the profession in Australia and elsewhere.

The International Connection

Developing sector neutral standards showed that the FRSB considered the standards drafted as New Zealand standards rather than as copies of what somebody else was doing, even with the Board's emphasis on using standards initially created overseas. Even so, the international connection was a significant factor in the

⁷⁵ T. Hazledine and J. Quiggan, 'No More Free Beer Tomorrow? Economic Policy and Outcomes in Australia and New Zealand since 1984,' *Australian Journal of Political Science*, 41:2 (2006), pp.145-159.

direction the Board took when creating New Zealand standards. This connection was two fold: the relationship between the New Zealand and Australian standard setters and the involvement of individual members of the NZSA on the international standard setting committees as well as the Society itself being a member of several international accounting organisations.

As in many other sections of New Zealand society and in keeping with the New Zealand Government's long standing commitment to closer economic relations with Australia, for several decades the NZSA has maintained close links with Australian standard setting bodies. Both the FRSB and the ASRB worked with their Australian counterpart bodies. With the passing of the Financial Reporting Act, the trans-Tasman relationship strengthened. By 1993, Australia and New Zealand had 17 accounting standards in common and both the ASRB and FRSB considered Australian standards when developing New Zealand accounting standards. The ASRB and FRSB also maintained official and regular contact with the Australian Financial Reporting Council and the Australian Accounting Standards Board. Increasing contact between the Australian and New Zealand accounting organisations resulted in the two countries actively commenting on each other's exposure drafts and combining on projects that have helped produce a common technological approach to standard setting.⁷⁶ During the 1990s, each country had observers at meetings of their counterpart Boards. Sometimes the observers were the Chairs of the Boards.

There were some differences in standard setting between New Zealand and Australia, in both process and concepts. In Australia, members of the accounting profession were on the AASB but not in the majority. Only four of the nine Board members were from the accounting profession. In New Zealand, accountants have always been in the majority on the New Zealand ASRB, as individuals rather than representatives of the Institute.⁷⁷ The AASB set Australian accounting standards, while the ASRB in New Zealand only approved accounting standards. Other organisations in New Zealand drafted the standards, although in reality only the FRSB did so.

Differences between Australian and New Zealand standard setting went beyond the standard setting system to the content of standards, such as company

⁷⁶ The first joint New Zealand/ Australian standards project produced ED-79 Financial Reporting of Life Insurance in 1996. From the early 1980s there were several occasions when the two countries exchanged information on particular accounting standards.

⁷⁷ Appendix J.

legislation and dealing with capital and solvency. The two countries had different securities laws and different tests for some elements in external financial reports as well as being subject to different political pressures. New Zealand's equity accounting standard was compatible with IAS, for example, while Australia's was not. The Australian Government, while it also introduced free market reforms in the 1980s, did not adopt the extreme economic reforms of the New Zealand Government. As a result, New Zealand's standards were sector neutral from 1993 while Australian standards did not become sector neutral until the turn of the century, following the Corporate Law Economic Reform Program (CLERP) review, and then not for local government entities. This happened when the AASB merged with the Australian Public Sector Accounting Standards Board (PSASB), but, as in New Zealand, sector neutral standards became a possibility only when there was a conceptual framework within which they operated.⁷⁸ New Zealand and Australia are the only countries to have had sector neutral accounting standards.⁷⁹

The differing sizes of the Australian and New Zealand economies suggest that the relationship could be asymmetrical with the Australian standard setting process dominating Trans-Tasman cooperation. However, the relationship between the two countries is more akin to that of Canada with the United States than say Ireland with the United Kingdom: two other examples of uneven sized economies in physical proximity and linked economically. Although Canada has its standard setting process based on the British system, the influence of the United States is strong, but like Australia and New Zealand, Canada and the United States have separate standard setting systems. The Irish-British standard setting relationship is closer than that of New Zealand and Australia. For several decades Irish accounting standards have been drafted by the United Kingdom's Accounting Standards Board although the Irish Institute is independent to the extent it has a committee studying the standards and ensuring they comply with Irish legislation. The Australasian connection may eventually become more like the Irish-British position, for the financial reporting regime is part of a wider political agenda with New Zealand and Australian governments committed to closer economic relations.

⁷⁸ W. McGregor, 'The Pivotal Role of Accounting Concepts in the Development of Public Sector Accounting Standards,' *Australian Accounting Review*, 1 (1999), pp.3-8.

⁷⁹ M. Hill, 'New Zealand Endorsement,' *The Accountants' Journal*, 72:5 (1993), p.41.

Several Australian researchers have critiqued the Australian sector neutral framework, including Ryan et al. (1999 and 2007) and Chua and Sinclair (1994).

Similarities between Australian and New Zealand standards and standard setting processes reflected the common social background and the increasing economic cooperation of the two countries. In the paradoxically wider but closer environment the two countries enjoyed, the New Zealand accounting profession was therefore in a position to benefit from Australia's more prominent presence in international standard setting, as was seen when New Zealand joined a small but influential international organisation, the G4+1.⁸⁰ The G4+1 was a think tank, producing discussion papers, not standards, on issues of financial reporting. It was set up in 1992 to augment the output and work of the IASC and disbanded in 2001, when the IASB was created to replace the IASC. At first, the G4+1 was composed of representatives from Australia, Canada, the United States and United Kingdom, with IASC observers, discussing various issues in accounting standards with the goal of eventual convergence of national standards. The group was successful because member countries followed similar conceptual frameworks, using similar definitions of terms. The New Zealand Institute joined the G4+1 in 1996 although Mackenzie, the NZSA's Technical Director, had been attending G4+1 meetings for some time prior to that. 'I had established relationships with the AARF and was invited to a G4+1 meeting in Melbourne about 1994... [W]e were already going to AARF meetings as observers.'⁸¹ The G4+1 group began developing standards and the group pressured the IASC to restructure.⁸² New Zealand was an active member of the group but always aware of the political environment with the United Kingdom and United States wishing the G4+1 not to mirror the then IASC. The fewer the number of countries attending G4+1 meetings the more effective the participating countries felt they could be in influencing IASC deliberations. G4+1 gave New Zealand a position in international standard setting that went well beyond its size. Because of its involvement in G4+1 New Zealand was well placed to influence international accounting standards.

In previous decades, New Zealanders had been members of several committees of various international accounting organisations and this continued during the 1990s. In 1998, W. Allen became the Chair of IFAC's Education

⁸⁰ W. McGregor, 'Future Directions for International Accounting Standard Setting,' *The Chartered Accountants' Journal*, 78:6 (1999), pp.26-34.

⁸¹ A.L. Mackenzie interview 19 June 2009. See also D. Street, *G4+1 1992-2001*, (London, G4+1, 2005).

⁸² In 2001, the IASC was dissolved and the IASB formed. The IASB accepted existing IASC standards, IAS, and began developing its own standards, IFRS.

Committee and I.D. Ball Chair of IFAC's Public Sector Accounting Standards Board (PSASB) and later the Public Sector Accounting Committee (PSC). Ball replaced G. Chapman as the Institute's representative on the Board. Under Ball's leadership, PSASB was very active and by 2000, the PSASB had released its first eight international public sector accounting standards.⁸³ G. Schollum in turn replaced Ball as the Institute's representative on the PSASB in 2000, when Ball became a member of the IASB's Standards Advisory Council. In 2009, K. Warren succeeded Schollum. Earlier in the decade the IASB appointed Hickey Director of Technical Activities and M. Bradbury a member of the International Financial Reporting Interpretations Committee (IFRIC). Ball is currently Chief Executive of IFAC. Other Institute members involved in international accounting organisations include B. Monopoli and J. Spencer, who were members of IASC steering committees and K. Simpkins who worked with Ball on IFAC's Public Sector Committee.⁸⁴ These New Zealanders, whether as representatives of the Institute or as individuals, took the opportunity to participate in and influence the development of international accounting standards in a number of areas, particularly public sector accounting standard setting. Their participation indicated the depth of standard setting in New Zealand, especially in the latter half of the 1990s.

The Institute did not always enthusiastically embrace such a level of representation in international standard setting. Having such representation made the Institute an 'influencer' but there was a financial cost. At times, these costs were sufficient for the Institute's Council to question whether the benefits outweighed the costs, as A.M. Mackenzie recalled when considering the Institute's participation in the G4+1 and the International Public Sector Accounting Standards Board.

The middle of the 1990s were years of significant changes in the NZSA. In 1994, the *Journal* changed its name from the *Accountants' Journal* to the *Chartered Accountants' Journal* and, in 1996 the NZSA revised its membership structure and its name. The NZSA became the New Zealand Institute of Chartered Accountants (Institute/ICANZ). These alterations were the result of several reviews of the work of the accounting profession and more particularly the role of the NZSA in ensuring the quality of work of the profession.⁸⁵

⁸³ See next paragraph for an explanation of the change in name from Society to Institute.

⁸⁴ S. Sheldon, 'President's Report,' *Annual Report 2000*, (Wellington, ICANZ, 2000), p.7.

⁸⁵ Such as the Horizon 2000 Committee.

The FRSB also reviewed its standard setting system. In 1996, the Standing Committee of the Board recommended that the FRSB use either international standards (IAS) developed by the IASC or Australian standards, which were themselves based on the international standards, as the base for future development of financial reporting standards. The FRSB accepted the recommendation to use IAS. The Standing Committee did not envisage a complete adoption of international standards but instead recommended that the FRSB study each international standard and alter it where necessary to make the standard sector neutral and conform to New Zealand legislation.⁸⁶ Even though New Zealand was basing its accounting standards on international standards, some organisations did not consider that this was sufficient. The New Zealand Stock Exchange, for example, urged the Institute to stop writing accounting standards for New Zealand conditions altogether and adopt overseas standards as they were. The Stock Exchange saw advantages to this in reducing the cost of producing standards, and entities benefiting from international uniformity in standards and financial reporting.⁸⁷ Several individuals and organisations, including the Stock Exchange, also pressed the Institute to have an urgent issues group that dealt in a timely manner with problems as they arose. In 2000, the FRSB considered this suggestion but rejected it because it had too few resources.

In 1997, the FRSB phased out the Financial Reporting Committees with the intention of creating working groups as needed to study and research the alteration of IAS to New Zealand accounting standards. The Board decided to do this because it would spread the workload of the committees and have more members involved in standard setting. The FRSB was continually aware of the voluntary work of committee members and felt that by having working groups focused on specific accounting standards volunteer members would be working on projects that interested them. In addition, the Board could identify and approach individuals with specialist knowledge or direct experience in specific topics and use them in the working groups. The FRSB saw this as a more efficient use of volunteers. Efficiency also underlay the Standing Committee's recommendation that the FRSB make greater use of international accounting standards.

⁸⁶ E.M. Hickey, 'International Harmonization and New Zealand Financial Reporting Standards,' *The Chartered Accountants' Journal*, 78:6 (1999), p1.

⁸⁷ B. Foster, 'Why not adopt International Accounting Standards?' *The Chartered Accountants' Journal*, 77:4 (1998), p.41

The Institute anticipated that adopting the Standing Committee's recommendation that the FRSB use international standards as a base for drafting future accounting standards would give several advantages to the FRSB and the Institute itself, including lowering costs. Already the Institute was unable to give sufficient resources to the FRSB to continue on its own producing all the standards that organisations such as the Securities Commission wanted.⁸⁸ New Zealand entities benefited when they used international standards to prepare external financial reports. Their reports were comparable with those prepared by entities overseas. New Zealand entities would also be able to participate in international markets more easily and financial resources would be more readily available to them.

The IASC had produced international accounting standards for 20 years and the quality of these standards had improved from the late 1990s to the extent that countries like New Zealand could use international standards with confidence. Globalisation meant greater interdependence of markets and economies and more countries were adopting international standards, or doing what the FRSB Standing Committee recommended, which was to adapt the international standards to local conditions. The International Organisation of Securities Commissions (IOSCO), to which the New Zealand Securities Commission belonged, critically examined the IASC standards and worked with the IASC to create a set of international accounting standards that were of a quality and usefulness that enabled IOSCO member countries to adopt.⁸⁹

Despite such advantages, harmonising New Zealand standards with international standards was not easy for the FRSB. The IASC produced international standards only after member countries, who had very different accounting backgrounds, accepted them. The problems with international harmonisation, as Sharpe and Bennett noted, included finding common ground for agreeing to the objectives of financial reporting and finding a common set of solutions to financial reporting issues.⁹⁰ There were fundamental differences, for example, between

⁸⁸ P.L. Hays, 'Accounting Standards Review Board: More Controversy Likely,' *The Chartered Accountants' Journal*, 74:6 (1995), pp.18-21.

⁸⁹ IOSCO was founded in 1983. The 2000 *Assessment Report* from the IOSCO Technical Committee (p.4) recommended, and the Presidents' Committee approved, 'incoming multinational issuers using the 30 IASC 2000 standards to prepare their financial statements for cross-border offerings and listings.'

⁹⁰ M. Sharpe, 'Trans-Tasman Harmonisation of Accounting Standards: Conquering the Constraints,' *The Accountants' Journal*, 72:5 (1993), pp.38-40; B. Bennett, 'Harmonisation Poses Major Challenges,' *The Accountants' Journal* 78:6 (1999), p.41.

accounting standards in English-speaking countries and some European countries. English-speaking countries were developing conceptual frameworks to encompass accounting standards and writing external financial reports to help investor decision-making. These countries were strong advocates for international harmonisation of accounting standards. On the other hand, some European countries and others, such as Japan, saw external financial reporting as protecting creditors. There was a legislative base to financial statements in these countries. Each international standard had to be carefully considered for its suitability to New Zealand needs and altered to conform to New Zealand legislation and apply across all sectors but using IAS also meant that New Zealand could lose the opportunity to develop flexible and innovative accounting standards. As a small country, there was some concern that New Zealand would not have the ability to influence the development of IAS. The participation of individual members of the Institute in international accounting organisations alleviated this concern somewhat.

Another concern for entities wishing to enter the American capital market was that the United States did not adopt IAS, requiring entity compliance with American GAAP separately from international GAAP. To minimise this problem, the IASB negotiated with the FASB to look at developing one set of international accounting standards, acceptable within the United States and elsewhere and the SEC in 2000 released a discussion paper that discussed allowing international companies to use IAS when filing financial statements in the United States. This issue remained a concern, although it became a little less of an issue when IOSCO recognised IAS in 2000 and the IASB and FASB began working on a common conceptual framework.

Despite these concerns, the advantages of using international standards outweighed them and in 1999 the FRSB released two exposure drafts, the first considered by the Board using the relevant international standard. The FRSB released ED-86 Accounting for Provisions and Contingencies. The FRSB based this exposure draft on IAS-37 Provision for Contingent Liabilities and Contingent Assets. At this time, the FRSB also released ED-87 Accounting for Intangible Assets. IAS-38 Intangible Assets was the basis for ED-87. New Zealand GAAP had an increasingly international flavour.

Conclusion

This chapter recounted the many sometimes conflicting changes to the standard setting regime and the standards themselves that occurred in New Zealand during the 1990s and explored the implications of those changes, highlighting the increasing participation of the state in establishing a new standard setting regime and reflecting on the motivations of the accounting profession during this time.

The ten years between 1992 and 2002 saw major changes in the financial reporting framework in New Zealand that had the active support of the accounting profession. At a time when the New Zealand Government was introducing the ASRB, ostensibly independent of the NZSA, to approve now mandatory accounting standards, the Society was releasing the first New Zealand conceptual framework for the standards. This framework was more innovative than the frameworks in the United Kingdom, Australia and United States from which it came, because it made New Zealand accounting standards sector neutral. The consequences of these changes were far reaching as several critical studies on sector neutrality in New Zealand and in Australia have highlighted.⁹¹ It is evident that, notwithstanding the disadvantages of sector neutral standards for public sector entities that developed with the implementation of the standards, the efforts the FRSB made to ensure that the standards were effective indicated that the profession continued to consider standard setting a professional activity and its responsibility.

In a contradictory move, the introduction of statutory standard authorising bodies into the standard setting process would seem to indicate that the profession was relinquishing its dominance in standard setting. But a close examination of the standard setting process showed that the New Zealand profession, like its counterparts overseas, retained control. The New Zealand Institute had majority membership of the ASRB although these members were there as individuals, not as official representatives of the Institute. This study agrees with Keenan that the profession's continued dominance of the ASRB was technically not capture but disagrees with Velayutham and Perera that the creation of the ASRB was an example of deprofessionalisation.⁹² This thesis argues that the Institute appeared to cede control of standard setting in New Zealand with the introduction of the ASRB but in reality

⁹¹ Boston *et al.* (1996); Goldfinch (2000); Baskerville and Newby (2002); Ellwood and Newberry (2006); Ryan *et al.* (1999 and 2007); Chua and Sinclair (1994).

⁹² Velayutham and Perera (1996); Keenan (2000).

the Institute continued to be the standard setter in New Zealand, drafting the standards the ASRB authorised and having members on the ASRB. This chapter shows that the change in the standard setting regime, in keeping with what was happening to standard setting in the United Kingdom and Australia, was to the authority of the standards, not to the profession's role in standard setting. One conclusion to be drawn from this is that the profession was not moving away from using standard setting as a means of professionalisation. Instead, the profession continued to treat standard setting as a professional activity but shifted its approach towards how it developed accounting standards.

As the actions of the New Zealand Institute illustrated, the profession was now looking at a wider international rather than national standard setting regime. New Zealand looked increasingly to the IASB for accounting standards, and to Australian adaptations of these standards. The Australian connection was particularly important for New Zealand and part of a continuing broad cooperative economic environment between the two countries. The closeness of the relationship between the profession in New Zealand and in Australia was such that one option considered by many in the Institute was for harmonisation of the entire standard setting process with Australia, not just standards. As the next chapter shows, this option was a significant factor in determining changes in New Zealand's financial reporting regime. One incentive for combining the two standard setting regimes was the continuing concern held by many in the Institute about the cost of setting accounting standards.⁹³ But whether or not the New Zealand and Australian professions eventually had one standard setting regime, it is evident from this chapter that the two countries would be doing so within the wider international standard setting environment.

The many changes in standard setting in New Zealand during the 1990s are evidence that how the profession set accounting standards was altering, not the involvement of the profession as standard setter. In this respect, standard setting was still a professional project. It was the nature of the project that was reformed.

⁹³E.M. Hickey and M. Westwood, 'Issues facing New Zealand Standard Setters going into the 21st Century,' *The Chartered Accountants' Journal*, 79:2 (2000), pp.82-86.

Chapter Eleven: Harmonising Standards: The Financial Reporting Standards Board 2003 to 2011

Introduction

This chapter discusses the effects of the 2002 decision of the ASRB to adopt IFRS and the consequences of the decision for standard setting in New Zealand and the New Zealand Institute. The first two sections consider how the IFRS decision was made, particularly the international influence on that decision, and the implications of that decision for the retention of sector neutral standards and for differential reporting. The third section describes how the profession-state relationship altered further with government reviews of the financial reporting regime and the significance of the reviews for the future of standard setting in New Zealand.

Harmonising New Zealand and International Accounting Standards

Given the closeness of economic relations between New Zealand and Australia, it was logical that one of the goals of the New Zealand Government was to harmonise New Zealand accounting standards and Australian standards.¹ In October 2002 the ASRB, following a similar statement in Australia, announced that New Zealand entities listed on the New Zealand Stock Exchange would comply with international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB) for financial periods beginning on or after 1 January 2007.² The declaration was not unexpected given New Zealand's involvement in international standard setting but, as discussed in this section, the timing reflected the importance of Australia to New Zealand standard setting.

The ASRB's decision was not a surprise. Early in 2002, the FRSB consulted a number of interested groups and in June released ED-92 Preface to Financial Reporting Standards.³ In the exposure draft the FRSB outlined its proposed policy on international convergence, that is, the harmonisation of New Zealand financial

¹ The 1983 Closer Economic Relations (CER) agreement promoted increasing harmonisation and policy convergence between the two countries. Source: S. Goldfinch and P. Mein Smith, 'Shared State Experiments' in Mein Smith, Hempenstall and Goldfinch (2008), p.92.

² Report of ASRB meeting 21 October 2002, *The Chartered Accountants' Journal*, 81:10 (2002), p.41.

³ K. Brady, *The Auditor-General's views on setting financial reporting standards for the public sector*, (Wellington, 2009), p.13.

reporting standards with international financial reporting standards.⁴ The ASRB supported the FRSB and in July 2002 the Chairs of the two boards stated that

...the [FRSB] will in future develop financial reporting standards on the basis of a rebuttable presumption that the standards of the International Accounting Standards Board (IASB) and the Public Sector Committee of the International Federation of Accountants (PSC) reflect best international practice and that the Board will depart from those standards only in rare and exceptional circumstances.⁵

The two boards thus gave notice of their intention to move to IFRS as the base for New Zealand accounting standards. The response of Institute members and interested groups to the exposure draft indicated a general acceptance for the decision to introduce a new set of accounting standards into New Zealand financial reporting. Institute members were familiar with the international standards.⁶ The FRSB already considered international accounting standards when developing New Zealand accounting standards and published international standards in the *Chartered Accountants' Journal*.⁷ The Institute remained committed to eventual convergence of accounting standards internationally and the standard setting system was structured with this goal in mind. The FRSB, for example, aligned its technical projects with IASB and Public Sector Committee (PSC) projects. Therefore, the decision to adopt international standards was a change, but not a major change in direction, for standard setting in New Zealand.

The Australian connection was a significant factor in the ASRB and FRSB decision to adopt IFRS. The FRSB decided 'relatively informally. It was a case of saying, Australia's going [to adopt international standards]. Perhaps we'd better make sure we're with them.'⁸ International convergence was a goal in New Zealand standard setting, but the ASRB also had in mind the convergence of New Zealand and Australian accounting standards. As noted in the previous chapter, when it established the ASRB in 1993, the Government made harmonisation of accounting standards a stated goal of the new standards approving board. Since 1993, the ASRB had consulted and worked occasionally with its Australian counterpart, the Australian

⁴ ED-92 was based on AASB Policy Statement 4 International Convergence and Harmonisation Policy.

⁵ J. Hagen and T. van Zijl, 'International Involvement in Standard Setting for Financial Reporting,' *The Chartered Accountants' Journal*, 81:6 (2002), p.5.

⁶ E.M. Hickey, J. Spencer, T. van Zijl and J. Perry, 'Adoption of IFRS- background and process,' *The Chartered Accountants' Journal*, 82:6 (2003), pp.4-7.

⁷ International accounting standards (IAS) were issued by the International Accounting Standards Committee, the predecessor body to the IASB.

⁸ E.M. Hickey interview 9 June 2009. The Australian decision followed a European decision to adopt IFRS for listed issuers. Both Europe and Australia adopted IFRS from 1 January 2005.

Financial Reporting Council (FRC). The Chair of the ASRB was an observer at meetings of the Australian Financial Reporting Council and the Chair of the FRC attended ASRB meetings. The FRSB had similar relations with its Australian counterpart, the Australian Accounting Standards Board (AASB). The two New Zealand boards communicated frequently with the Australian boards, making submissions on Australian exposure drafts and commenting on other accounting standard releases.⁹ These exchanges paralleled others made in several areas of the economy, including trade, business and state sector reform.¹⁰

The level of communication seemed strong and to work both ways but in reality communication was more one-sided, reflecting a wider and general asymmetry in the relationship between the two countries. New Zealand accounting boards contacted their Australian counterparts more frequently than the Australian standard setting boards approached the FRSB and ASRB.¹¹ In fact, Australia caused some comment when it made the decision to adopt IFRS and did not inform New Zealand beforehand.¹² New Zealand standard setters were not unduly concerned about this lack of communication. Certainly the relationship between the standard setting bodies in the two countries did not alter and the two professions continued as before.

Despite these years of communication and observation, as noted earlier, accounting standards in the two countries were not identical, although they were more similar than different. Adopting IFRS meant that New Zealand standards would now harmonise with Australian standards.¹³ The Australian decision to adopt IFRS provided a strong incentive for the FRSB and ASRB to decide that New Zealand do likewise, but from a later date. New Zealand decided to introduce IFRS in a different year from the Australians. Australia adopted IFRS from 2005 and New Zealand from 2007. Although 2005 gave the Australians a relatively tight timeframe within which to work, Australia chose 2005 because European countries were to use IFRS from that

⁹ D. Macdonald interview 14 July 2009. As the bigger partner in trans-Tasman activities, the Australian way often predominated. Source: Goldfinch, 'Doing Business' in Mein Smith, Hempenstall and Goldfinch (2008), p.127.

¹⁰ Goldfinch and Mein Smith 'Shared State Experiments' in Mein Smith, Hempenstall and Goldfinch (2008), p.92.

¹¹ T. van Zijl interview 16 July 2009.

¹² T. Ravlic, 'New Zealand: giving time and consideration to IAS adoption,' *Accountant*, London, January 2003, p.17.

¹³ V. Sealy-Fisher, 'Standards- FRSB Developments,' *The Chartered Accountants' Journal*, 82:2 (2003), p.85.

year. The ASRB and FRSB considered 2005 too soon for a smooth transition.¹⁴ However, the two New Zealand boards acknowledged that some New Zealand companies who had dealings in Australia would want to move to comply with IFRS from 2005 so the ASRB decided that any New Zealand company that wished to could use IFRS for financial periods from 1 January 2005.¹⁵ This put pressure on the FRSB to have the system to use IFRS in place by the end of 2004.

The New Zealand Government supported the ASRB and FRSB decision. In concert with the Australian Government, the New Zealand Government established a body to monitor the integration of standard setting in the two countries. In 2004, the New Zealand Minister of Finance, Michael Cullen, and the Australian Treasurer, Peter Costello, released a joint statement announcing the creation of a Trans-Tasman Accounting Standards Advisory Group (TTASAG). The Group, as part of the New Zealand Government's strategy to work towards a single Australasian economic market, aimed to reduce the costs of standard setting by creating one set of accounting standards for the two countries.¹⁶ Australian members of the Group included representatives from the Australian Treasury, the Australian Accounting Standards Board and the Australian accounting profession. The New Zealand representatives came from the Ministry of Economic Development, the ASRB and the Institute.

One of the Group's first tasks was to encourage the standard developing boards in New Zealand and Australia to sign a Memorandum of Understanding. The memorandum made the Chairs of the ASRB and FRC full members, not just observers of each other's board.¹⁷ Other New Zealand-Australian organisations working to improve networking and convergence in trans-Tasman relations were also interested in financial reporting. In 2004, the first Australia New Zealand Leadership Forum, for example, commissioned and received a working group paper on financial reporting. The working group included members of TTASAG.¹⁸

While the standard setters in both New Zealand and Australia concentrated on adopting IFRS, they continued to work towards eventual integration of accounting

¹⁴ E.M. Hickey interview 9 June 2009.

¹⁵ Report of ASRB meeting 19 December 2002, *The Chartered Accountants' Journal*, 81:10(2002), p.41.

¹⁶ T. Ferrers, 'Australian News,' *The Chartered Accountants' Journal*, 83:3 (2004), p.77.

¹⁷ The Group also collected information on financial reporting for the New Zealand Ministry of Economic Development's review of the financial reporting framework.

¹⁸ J. Perry, *Accounting Standards/Financial Reporting Working Group Report*, (Auckland, Australia New Zealand Leadership Forum, 2004/2005).

standard setting. In 2006, the FRSB and the Australian Accounting Standards Board signed a 'Protocol for Co-operation between AASB and FRSB'. This document outlined the convergence requirements for standards for public benefit entities (PBE), alignment of financial reporting terminology and stated a commitment to communicate how the two boards would move towards convergence. Under this Protocol, for example, the two boards were to adopt the same approach to IASB/FASB and IPSASB projects.¹⁹

The Australian connection was important, but it was not the only reason why New Zealand moved to comply with IFRS. Other factors helped the New Zealand boards decide in 2002 that it was time for New Zealand to move away from domestically produced accounting standards. The quality of IFRS had risen since 2001 and these standards were now more acceptable to the FRSB and ASRB. In addition, New Zealand entities looking to international capital markets understood the advantages of using IFRS in preparing their financial reports.

An increasing number of countries began using IFRS from this time because the International Accounting Standards Committee (IASC) was replaced in 2001 by the IASB.²⁰ The IASC had issued a full set of international accounting standards (IAS) between 1973 and 2001 and in 2000 had received IOSCO approval of an identified core set of its standards.²¹ However, as outlined in the previous chapter, the IASC's consensus approach to standard setting produced IAS that required significant alteration before countries such as New Zealand used them. Member countries had different approaches to standard setting and to accounting practices. To achieve agreement on the wording of a standard the IASC had to compromise on details in the standards. Consequently, the international standards issued by the IASC sometimes contained options that were not acceptable in New Zealand. This did not mean that New Zealand could not use the international standards. As noted earlier, prior to 2002 the Institute, as a member of the IASC, considered relevant IAS when drafting New Zealand accounting standards, adapting but not adopting them. The creation of the IASB allowed countries like New Zealand to consider using international standards for the International Board was 'building on the best of what had been done in the

¹⁹ See 'FRSB Developments,' *The Chartered Accountants' Journal*, 85:5 (2006), p.48.

²⁰ In 2008, 102 countries used IFRS in some way. Source: L. Guda and J. Yeoh, 'Getting Closer to one set of global accounting standards,' *The Chartered Accountants' Journal*, 87:8 (2008), pp.14-16.

²¹ The International Organisation of Securities Commissions' Technical Committee approved 'multinational issuers use the 30 IASC 2000 standards.' Source: *Assessment Report* (2000), p.4.

United States, the United Kingdom and Canada.’²² The accounting standard setting regime was thus changing to standard setting by an international institution with standard application and enforcement being determined at national level.

New Zealand profit making entities had much to gain from adopting IFRS. Complying with international standards made financial reporting in New Zealand more credible internationally. Using IFRS also decreased costs for New Zealand entities participating in international capital markets.²³ The credibility of external financial reports prepared by New Zealand entities depended in part on overseas interests accepting the independence of New Zealand’s standard setting system. Users of a New Zealand entity’s external financial reports could regard the ASRB as being under the influence of the accounting profession with the majority of its board also Institute members. The Institute was aware of this perception of conflict of interest and recognised that using international standards would enable general purpose financial reports produced by New Zealand profit making entities to be accepted more easily by overseas investors.²⁴ As an international body, the IASB was more independent than local accounting professions and free of government influence. Promulgations of the IASB had the strength of independence that New Zealand standards did not have. During drafting, international standards were scrutinised by a wider range of interested parties than national standards were, thus adding to the credibility and applicability of the international standards. Using IFRS would provide assurance to investors and other users of financial statements that external financial reports were presenting a true and fair view of a New Zealand entity’s activities, in a consistent manner comparable with similar reports developed by entities in other countries. In this way, New Zealand entities could be more attractive to overseas investors.

New Zealand entities that had to prepare external financial reports in other countries could also benefit from using IFRS. These entities would need to prepare only one set of general purpose financial reports instead of separate sets for New Zealand and other countries in which they were conducting business. Thus their costs would be lower than if New Zealand continued with domestically produced

²² D. Trow interview 15 July 2009.

²³ Hagen and van Zijl (2003), p.5.

²⁴ T. van Zijl interview 16 July 2009.

accounting standards.²⁵ Another advantage to adopting IFRS was that there was a greater chance of IFRS being generally accepted within New Zealand than were New Zealand standards. The international credibility of international standards could make them more acceptable to a greater number of New Zealand entities than local standards.²⁶ It was therefore relatively easy for the New Zealand Institute to consider adopting IFRS because Institute members were familiar with international standards.²⁷

Harmonising standards had costs, financial and non-financial. Although there were one-off actual costs of adoption, the Institute expected its long term responsibilities and costs to lessen with the adoption of IFRS. Difficult accounting issues would be the responsibility of the IASB rather than the FRSB and ASRB. The international body had the resources, financial and human, that a small country such as New Zealand lacked to overcome these challenges. Until now, the Institute had funded standard setting in New Zealand. It had done this with varying degrees of difficulty but had benefited from the independence this gave the profession. Now that the Institute was moving to adopt IFRS, there was less incentive for the accounting profession to fund standard setting. With the benefits of accounting standards reaching beyond the Institute, the ASRB on behalf of the Institute asked for government funding to assist in the costs of converting New Zealand standards to IFRS.²⁸ The Government agreed and gave the ASRB \$1m to cover FRSB costs over 4 years.²⁹ Thus in 2004, the FRSB had additional funding to finance the cost of the conversion process.

Non-financial costs of the adoption of IFRS for the Institute included the potential loss of influence in standard setting. The IASB was a large international organisation with many member countries and the Institute needed to ensure that it

²⁵ W. McGregor and T. van Zijl, 'International Convergence and Harmonisation,' *The Chartered Accountants' Journal*, 81:6 (2002), pp.6-8.

²⁶ IASB standards are not necessarily applicable in all countries. An increasing number of countries are choosing to adopt them but they are a product of Anglo-American countries that have a common law legislative base. Their adoption may be more problematic for countries with civil code law systems, as in Europe. Some countries with less need for a capital market, such as in Asia where entities rely more on family and related financing may also find IASB standards less relevant.

²⁷ New Zealanders have been represented on various IASB committees including management commentary, reporting interests in joint ventures, entity combinations and the advisory group on accounting by small and medium sized entities. In 2005, K. Simpkins was asked to lead the group monitoring, from a public sector perspective, the IASB's conceptual framework project with the FASB.

²⁸ The Institute did not wait until deciding to adopt IFRS to request government funding. The Institute had been discussing this as early as 1999. Source: K. Smith, 'President's Report,' *Annual Report Institute of Chartered Accountants in New Zealand 1999*, (Wellington, NZICA, 1999), p.6.

²⁹ The government had given funding earlier for participation in international activities.

continued to participate in IASB decision-making.³⁰ New Zealand ran a risk that it would not be able to influence the IASB to keep standards at a sufficiently high quality. As it grew larger and more important in international standard setting there was a further risk the IASB could become an inefficient standard setter with a top heavy, managerial layer unable to respond to difficult decisions and tending to avoid making decisions on contentious issues by compromising on the contents of accounting standards. As a standard setter the IASB did not itself apply accounting standards so there was also a danger that the organisation could become divorced from the realities of applying accounting standards and hence produce standards that were difficult for a member country to apply. Another possible disadvantage was that the accounting profession at a national level might leave too many issues to the international bodies and thus some issues pertaining to specific countries could be ignored by the profession. As set out in the proposal for the 2011 changes to the financial reporting regime in New Zealand, the profession and the state hoped to avoid this problem by retaining a statutory body to monitor the drafting and authorising of standards.

Standard setting was still important even in a country that was a standard taker, as New Zealand used international standards which with little change were now part of New Zealand GAAP.³¹ However, even while being a standard taker the FRSB saw that the Institute would need to retain a standard setting body to ensure no conflict between the international standards and New Zealand legislation.³² Thus, in the proposed system, New Zealand GAAP was to be IFRS, but IFRS adapted to New Zealand conditions. A New Zealand standard setting body was necessary 'to study each international standard, consult locally and study the permutation issues' which A.M. Mackenzie considered was 'absolutely critical to the quality of international standards.'³³ The Institute still needed to decide whether to draft any standards the IASB had not yet developed but which the profession considered should be in New Zealand GAAP. The Institute intended any alteration to IFRS to be the minimum necessary for the international standards to conform to New Zealand legislation and the concept of sector neutrality.

³⁰ A.L. Mackenzie interview 19 June 2009.

³¹ A. Texeira and D. Pickens, 'Global FRS: risks and strategies,' *The Chartered Accountants' Journal*, 83:11 (2004), pp.18-19.

³² T. van Zijl interview 16 July 2009.

³³ A.M. Mackenzie interview 19 June 2009.

New Zealand was also determined to be part of the profession's new international approach to standard setting. New Zealand was a country with a small population but it had a good reputation in international standard setting. One way for New Zealand to participate in international standard setting was for the Institute to maintain its representation on a number of international committees and bodies.³⁴ New Zealand's reputation in developing accounting standards to date was significant, not least because of the input of individual New Zealanders in international standard setting organisations and the adventurous steps taken by the Institute in previous decades in respect of SSAP-17 and to create sector neutral accounting standards.

The Institute is a member of a number of international organisations, not just the IASB and its predecessor, IFAC. In 2005, New Zealand was one of nine founding members of the Global Accounting Alliance. This organisation, based in London, was created to promote quality accounting service, to share information among national accounting bodies and to collaborate on important international issues. The Global Accounting Alliance works with national regulators, governments and IFAC.³⁵ The Institute was also a founding member of the Asian-Oceanian Standard Setters Group (AOSSG). This group had its inaugural meeting in Malaysia in November 2009, attended by three members of the IASB, including the Chair.³⁶ New Zealand's participation in the new organisation reflected the Institute's recognition of the growing economic importance of the Asia-Pacific region for New Zealand entities.

In the meantime, although the Institute appeared to move further away from dominance of standard setting, the Institute continued to have a role in monitoring New Zealand accounting standards. What had changed was that any input the profession now had into developing standards was that of a disinterested profession, maintaining an outward focus and working to improve accounting standards for users of external financial reports rather than a profession controlling standard setting in New Zealand. Entities still relied on the profession for guidance and support. The FRSB continued to review individual international standards to ensure that they conformed with New Zealand legislation and New Zealand conditions. The ASRB still had the legal obligation to approve accounting standards used by New Zealand

³⁴ T. van Zijl interview 16 July 2009.

³⁵ The member countries of GAA are Canada, United States, England and Wales, Australia, South Africa, New Zealand, Ireland, Scotland, Hong Kong.

³⁶ The member countries of AOSSG are China, Japan, Korea, Malaysia, Singapore, Australia, New Zealand, Brunei, Hong Kong, Indonesia and Macau.

entities. The Big 4 accounting firms also had a new role educating users and preparers of external financial reports in the use and effects of IFRS. The Institute's education programme was important because, while entities wanted to use NZ IFRS, many did not consider they had the resources to adapt their internal structures to comply with IFRS. A survey of entities in a number of countries found that it was in New Zealand and Australia that the majority of entities had decided not to create systems to adapt to using IFRS but to rely on the Big 4 accounting firms to devise systems that they then would use.³⁷ These findings confirmed the dominance the accounting profession had in standard setting in New Zealand, through the actions of the Institute and the larger accounting firms and the consequent dependence New Zealand entities had on the profession's ability to produce accounting standards.

Once the decision was made to adopt IFRS, the FRSB spent the next two years scrutinising the international standards to ensure that they complied with New Zealand legislation and encompassed the main characteristics of New Zealand accounting standards that is, the standards were applicable to all sectors and took differential reporting into account. The FRSB had first to establish the new New Zealand GAAP. To do so the Board organised eight conversion groups to conduct the review and produce a set of standards adapted to New Zealand conditions, to be known as NZ IFRS. The initial set of NZ IFRS, which were to be ready by the end of 2004, was referred to as the 'stable platform.'³⁸ Members of some of the conversion groups included personnel from the Auditor-General's Office and the Securities Commission reflecting the interest and importance of the public sector.

The review process was somewhat complicated. The conversion groups added sections to IFRS to make the language and application of the standards sector neutral, and if necessary accommodate industry specific issues such as defining control in the context of consolidated financial statements.³⁹ The scope of the international standards sometimes differed from the New Zealand standards and some international standards had alternative methods of measurement and disclosure which the New

³⁷ 'New Zealand slow to adopt new accounting standards,' *The Chartered Accountants' Journal*, 82:11 (2003), pp.46-47.

³⁸ The groups focused on sector neutrality of standards; definition of control; differential reporting; prospective financial information and education. Representatives from the Securities Commission and Office of the Auditor-General were on the conversion group looking at prospective financial information. Source: V. Sealy-Fisher, 'Looking Ahead at Standard-Setting,' *The Chartered Accountants' Journal*, 83:6 (2004), pp.15-16.

³⁹ Sealy-Fisher (2004), p.15.

Zealand standard setters had previously rejected. A further restriction, discussed below, was that the conversion groups had to keep in mind that IFRS needed to remain relatively unaltered if New Zealand companies were to be able to show that their external financial reports had been prepared using international accounting standards.

The conversion groups worked through 2003 and 2004, making 135 alterations to the set of IASB accounting standards that were to be used as the stable platform. These changes were mostly industry specific or reduced options within the standards. The changes were similar to those that Australia made to its standards, because the FRSB and AASB exchanged information and commented on the other's process of converting domestic accounting standards. There were, for instance, 63 changes to accommodate public benefit entities.⁴⁰ The conversion groups submitted exposure drafts of the reviewed IFRS to the FRSB who, after reviewing and accepting them, issued the drafts for three months, inviting comments from Institute members and interested groups. Each exposure draft comprised the international standard with additional information for public benefit entities, in shaded boxes. The draft came with a discussion paper that illustrated any differences between the IFRS and its equivalent New Zealand FRS. At the end of three months, the conversion working groups used the comments submitted on a draft to redraft, and sent the revised draft to the FRSB, who then sent it to the ASRB. This process followed the ASRB's procedure for adopting IFRS, as outlined in ASRB Release 8: The Role of the Accounting Standards Review Board And The Nature of Approved Financial Reporting Standards.⁴¹ Release 8 was a comprehensive guide, giving the conditions for adopting IFRS, defining which entities would be required to use IFRS, incorporating guidelines and discussion papers outlining the differences between IFRS and current New Zealand standards and explaining what the changes to IFRS would be for public sector entities.

By July 2004 the FRSB and ASRB had issued for comment exposure drafts on all existing international standards issued by the IASB, 11 IASB interpretations and 15 exposure drafts of new New Zealand standards and amendments to existing

⁴⁰ K. Warren, 'Converting to international accounting standards,' *The Chartered Accountants' Journal*, 84:6 (2005), pp.18-21.

⁴¹ Release 8 was issued in May 2004.

standards.⁴² The FRSB also submitted to the IASB a number of suggested alterations to IFRS. At the end of 2004, the ASRB approved the stable platform, the initial set of NZ IFRS. This set of standards was available for those entities that wished to present external financial reports in accordance with IFRS between 2005 and 2007, that is, before the mandatory date in 2007.

With the stable platform established, the FRSB continued with both its review programme for international standards and the review and creation of further standards.⁴³ Two new standards, characteristic of New Zealand financial reporting were FRS-42 Prospective Financial Statements, replacing FRS-29 Prospective Financial Information in 2005 and FRS-43 Summary Financial Statements, replacing FRS-39 Summary Financial Reports in 2007. The FRSB continued to develop standards with the Australian Accounting Standards Board. One topic under study with Australia was a standard on non-exchange revenue for Public Benefit Entities (PBE).

The decision to adopt IFRS was generally accepted within New Zealand. Entities benefited from increased credibility in international capital markets. The Institute and ASRB had support from government support and from organisations such as the New Zealand Stock Exchange and the New Zealand Securities Commission. Furthermore, the Institute converted SSAPs to NZ IFRS with active cooperation from other government departments, such as the Office of the Auditor-General. Some Institute members have misgivings about the ability of the profession internationally to respond appropriately, but not alone, to political pressures from economically dominant countries and the measure of the profession's response to international crises. K. Simpkins noted that some IASB proposals 'haven't been articulated in a manner that's consistent with the conceptual framework' and hence not the 'thoughtful considered response' they should be. The situation has not been helped by the length of time it is taking the IASB and FASB to agree to a common conceptual framework. Despite this, the New Zealand accounting profession accepted these disadvantages and hoped to alter IFRS to the level and conditions of the New Zealand standards.

⁴² L.W. Ng, 'The Road to Adopting New Zealand equivalents to IFRS,' *The Chartered Accountants' Journal*, 83:6 (2004), pp.7-10.

⁴³ Warren (2005).

Challenges to Adopting International Financial Reporting Standards

The advantages of adopting IFRS were many, but there were some problems. In 2002, the FRSB and ASRB were determined that the outstanding characteristics of New Zealand GAAP- sector neutrality and a differential reporting regime within one set of accounting standards- would remain after New Zealand standards were harmonised with international financial reporting standards. Trying to achieve these proved a major challenge for the boards.

Sector neutrality

The FRSB found that there were two aspects to the issue of maintaining sector neutrality in New Zealand accounting standards. First was the problem of satisfying the public sector that NZ IFRS were as useful to the sector as New Zealand financial reporting standards had been. The public sector was wary of how possible this would be. From 2003, the Office of the Auditor-General increasingly expressed concerns about the process and results of attempting to make IFRS sector neutral. Second was the developing complexity of New Zealand entities that produced external financial reports. The FRSB could no longer focus on just the private and public sectors when drafting accounting standards. There were entities that were, among others, private but non profit making and public and profit making. These entities demanded more from accounting standards than they had in the past.

Ironically, to some extent their demands may have arisen because New Zealand had succeeded in integrating financial reporting requirements for the public and private sectors, thus highlighting a lack of guidance for entities that did not fit easily into the more general private and public sector categories. The FRSB and ASRB were responding to pressure from public sector and non-profit making entities to ensure that the new standards incorporated their needs. In addition, when drafting a standard, the FRSB had to consider the needs of both public and private sector entities. Consequently, there was a breadth to New Zealand standards, such as FRS-36 Accounting for Acquisitions Resulting in Combinations of Entities or Operations, that was absent in accounting standards in many other countries.⁴⁴ The consideration the FRSB gave to drafting sector neutral standards led to standards that had a distinctive quality, valued across the sectors in the New Zealand economy.

⁴⁴ E.M. Hickey interview 9 June 2009; T. van Zijl interview 16 July 2009.

Yet despite the breadth of the New Zealand accounting standards, no other country, except Australia, developed sector neutral standards.⁴⁵ Some observers have attributed this to historical and political factors where, for example, public sector organisations contrived to maintain control over financial reporting in their area. Another reason may be because accrual accounting is the basis for external financial reporting in the private sector and many governments, even today, do not use an accrual method of accounting.⁴⁶ The New Zealand public sector's adoption of accrual accounting was possible because the Lange Labour Government successfully legislated for this.

Where New Zealand had responded, in the latter part of the twentieth century, to the growing complexity and size of the government sector by developing sector neutral accounting standards, in other countries there was growing pressure for the development of a set of accounting standards for government separate from accounting standards for the private sector. Established government monitoring bodies wished to retain control over government spending and there were calls for greater accountability from government organisations. The International Federation of Accountants (IFAC) responded to this pressure in 1995, creating a Public Sector Committee to develop a core set of Public Sector Accounting Standards (PSAS). In 1998, the Committee released the first exposure drafts of public sector standards. These standards were similar to corresponding private sector standards and adapted from international standards (IAS) produced by the IASC for the private sector. By 2002, the committee, now called the International Public Sector Accounting Standards Board (IPSASB), had released 18 IPSAS. IPSASB recognised the value of New Zealand's work on integrating public sector requirements into private sector standards and a number of New Zealanders with expertise in public sector accounting were members of IPSASB.⁴⁷ The FRSB made use of public sector standards issued by IPSASB, using them when reviewing or writing New Zealand's sector neutral standards.

When the ASRB decided in 2002 that New Zealand would adopt IFRS, the Board announced that the new standards would be sector neutral. The Board intended that when the FRSB was reviewing IFRS for consideration as a New Zealand

⁴⁵ Australia had a set of sector neutral standards between 2000 and 2005.

⁴⁶ I.D. Ball interview 1 August 2009.

⁴⁷ New Zealanders involved in IPSASB include G. Chapman, I.D. Ball, G. Schollum and currently, K. Warren. Ball was Chair of IPSASB from 1995 to 2000.

accounting standard, the FRSB would ensure that the IFRS was not only compliant with New Zealand legislation but also include requirements specific to public sector entities.⁴⁸ Not all in the public sector were sure that this was possible. The Office of the Auditor-General, for example, had some misgivings about the viability of this approach. K. Brady, the Auditor-General, wanted fully integrated New Zealand standards. He did not want to see ‘private sector standards with addenda or boxed inserts.’⁴⁹

During 2003 the FRSB attempted to take the public sector and the needs of small and medium sized entities into consideration when converting IFRS to NZ IFRS.⁵⁰ However, the Board found that IFRS could not be altered easily. The problem was not that the standards could not be redrafted to make them sector neutral. That was how New Zealand standards had originally been written. The problem was that IFRS issued by the IASB were written for large for-profit entities. The FRSB converting IFRS to sector neutral NZ IFRS would have to make changes to IFRS to the extent that it would not be possible for a New Zealand entity using NZ IFRS to say that it was compliant with IFRS. Consequently, the FRSB was reluctant to make major changes to IFRS with the result that NZ IFRS were IFRS with material added to accommodate the public sector.⁵¹ The Auditor-General became increasingly unhappy with this process, because public sector entities found IFRS did not meet their needs.⁵²

From 2002 the FRSB worked with the Office of the Auditor-General, among others, to convert IFRS to NZ IFRS. But the difficulties in trying to make the standards sector neutral when IFRS were primarily for profit making entities proved too much and ‘cracks opened up.’⁵³ In 2008, the Auditor-General stated that the boxes of material added to IFRS to make them sector neutral were not enough. The altered standards were, he considered, inadequate. Brady argued NZ IFRS was not relevant to the public sector and the costs of the public sector complying with NZ IFRS would outweigh the benefits. This problem was compounded, he felt, because the FRSB was not addressing public sector issues. Brady gave the example of the standards on

⁴⁸ V. Sealy-Fisher, ‘FRSB Developments: Report of FRSB meeting 5 February 2003,’ *The Chartered Accountants Journal*, 82:2 (2003), p.56.

⁴⁹ Brady (2009), p.13.

⁵⁰ J. Schofield, ‘President’s Report,’ *2004 Summary Annual Report*, (Wellington, NZICA, 2004), p.5.

⁵¹ T. van Zijl interview 16 July 2009.

⁵² Brady (2009), p.17.

⁵³ K. Simpkins interview 15 July 2009.

financial instruments which, he stated, did not consider non-commercial activities. Brady exhorted the FRSB to acknowledge the stewardship aspect of the public sector and to have a 'more open-minded process' of standard development. He concluded that the conversion process was flawed because membership of the FRSB did not allow adequate consideration of public sector needs.⁵⁴ There was some public sector representation on the FRSB at this time. Prominent among these representatives was K. Warren, the Chief Accounting Advisor for the Secretary to the Treasury, who was a member of the ASRB as well as the FRSB and the first Chair of the conversion working group. However, as K. Simpkins, then Deputy Auditor-General pointed out, only three of the 13 FRSB members came from the public sector and therefore the participation of accountants such as Warren was not sufficient to ease the concerns of the public sector.⁵⁵

The situation was complicated because low public sector representation on FRSB occurred at a time when the FRSB's programme of drafting sector neutral standards had reached the stage of addressing more difficult public sector accounting issues.⁵⁶ When the FRSB first began developing sector neutral standards, the standards covered public sector financial transactions that were the same or similar to private sector financial transactions. Although almost all financial transactions came within these standards, there were a few transactions that were specific to the public sector, such as social responsibilities. J. Perry referred to these as 'sophisticated' issues that now had to be addressed.⁵⁷ The FRSB therefore needed to develop standards for these purely public sector transactions at a time when the board was focused on producing NZ IFRS.

Brady remained dissatisfied with what the FRSB was doing and at the end of 2008 the Office of the Auditor-General withdrew from participation in the FRSB's conversion working groups. In June 2009, Brady released a discussion paper outlining his concerns on the setting of financial reporting standards for the public sector.⁵⁸ The Auditor-General in his discussion paper recommended to government that the public sector in New Zealand adopt international public sector accounting standards (IPSAS)

⁵⁴ K. Brady, 'Do NZ IFRS meet the public sector's needs?' *The Chartered Accountants' Journal*, 87:10 (2008), pp.19-20.

⁵⁵ K. Simpkins, 'Not-for-profit faces IFRS,' *The Chartered Accountants' Journal*, 82:6 (2003), pp.23-25.

⁵⁶ J. Perry interview 18 September 2009.

⁵⁷ J. Perry, 'On the Cusp,' *The Chartered Accountants' Journal*, 88:6 (2009), p.26.

⁵⁸ Brady (2009).

rather than NZ IFRS. International public sector accounting standards were becoming a more attractive option for public sector entities around the world. IPSASB was producing public sector standards of a quality that allowed the Auditor-General to seriously consider these standards for the New Zealand public sector. The international public sector board had also been developing a conceptual framework for public sector entities, adding weight to the international reputation of its public sector standards.⁵⁹ Brady's recommendation that the public and private sectors have separate standards was consistent with Ryan *et al.*'s findings in Australia.⁶⁰ Their study of the Australian decision to adopt IFRS and attempt to have them sector neutral revealed the same problems for the public sector in Australia.

Brady was also concerned that the FRSB had concentrated on providing guidance for the not-for-profit sector to the detriment of the needs of the public sector.⁶¹ When the FRSB first developed sector neutral standards, the Board took only two sectors into account, the private and public sectors. The public sector comprised government, both national and local. But now there were a number of other types of entities that did not fit the definition of either private or public, including government organisations operating in the same way as private sector entities and non-profit making private organisations, such as charities.

At the turn of the century the New Zealand accounting profession began to focus on the needs of those entities that belonged neither to the public sector nor profit making private sector. In 2002, a group of Wellington NZICA members established the first not-for-profit special interest group. The following year, similar groups were set up in Christchurch and Auckland. These special interest groups discussed issues surrounding not-for-profit entities, including financial reporting, and they were influential in having the FRSB in 2004 create a Not-For-Profit Taskforce to consider the needs of the not-for-profit sector.⁶² The Not-For-Profit Taskforce released a Report in 2006 listing suggestions to improve financial reporting in this sector. One recommendation led to the FRSB creating a Not-For-Profit Sector Advisory

⁵⁹ I.D. Ball interview 1 August 2009.

⁶⁰ Ryan *et al.* (2007).

⁶¹ Brady (2009), p.20.

⁶² R. Rattray, 'SIG him, tiger,' *The Chartered Accountants' Journal*, 88:6 (2009), p.66.

Committee (NFPSAC) to work with the special interest groups in the three main centres and provide guidance for entities in this sector.⁶³

While the FRSB was addressing the needs of the not-for-profit sector, the Board also redefined the non-private sectors and began using the term Public Benefit Entities (PBE) for entities that aimed to service the community rather than make profits for themselves. This term linked the public sector with the not-for-profit sector, broadening the definition covering entities that were not private or profit making. Public Benefit Entities included private sector not-for-profit entities as well as public sector groups. In 2006, the FRSB established a public benefit entity working group that a year later issued a financial reporting guide for not-for-profit entities and in 2008 produced a model set of financial statements for a medium sized not-for-profit entity using NZ IFRS. The Auditor-General was critical of what he saw as the not-for-profit focus of the FRSB. He felt that the public benefit entity working group should have been addressing public sector issues as well.⁶⁴

The issues of public sector accounting standards and the varying financial reporting needs of entities that were not private, large and profit making were addressed by the Ministry of Economic Development in a report released for discussion in September 2009. This report, *The Statutory Framework for Financial Reporting*, was also a response to the issue of differential reporting for small and medium sized entities.

Differential reporting

As New Zealand's financial reporting regime developed, smaller entities had increasing concerns about complying with financial reporting requirements. The cost of preparing external financial reports was relatively greater for smaller entities. These entities did not see the need to produce such reports. The aim of providing information through general purpose financial reports useful for investor decision-making, did not apply to smaller entities.⁶⁵ The owners of these entities were almost always intimately involved in the business and had access to the information necessary for them to make useful decisions. Banks and other possible investors in

⁶³ See the July 2008 issue of *The Chartered Accountants' Journal* for a series of articles on the work of the NFPSAC.

⁶⁴ Brady (2009), p.19.

⁶⁵ An entity was exempt from preparing general purpose financial reports under the Differential Reporting Framework if it fulfilled two of these criteria- fewer than 20 employees; total assets less than \$2.5 million; annual gross operating revenue less than \$5 million.

smaller entities were also able to request information they needed. To small and medium sized entities the costs of preparing general purpose financial reports outweighed any benefits, because these statements were not needed for decision-making or accountability.

In New Zealand, the accounting profession recognised that smaller entities need to produce less complex financial statements and, in 1994, the Institute introduced a differential reporting framework.⁶⁶ When the FRSB was reviewing IFRS in 2003 and 2004, the board acted to have NZ IFRS incorporate a differential reporting regime, accommodating the reporting requirements of small and medium sized entities that used these standards. The Board also made these recommendations to the Ministry of Economic Development but when IFRS were adopted there was no clear indication of which entities should use them. As a result the FRSB continued to come under pressure from smaller entities concerned that the financial reporting exemption requirements of the New Zealand system were not broad enough.

At this time, the IASB began looking at developing IFRS for small and medium sized entities (IFRS for SME). In 2004, the IASB released a draft document on IFRS for SME recommending a differential reporting regime for these types of entities. While agreeing with the concept of differential reporting, the FRSB disagreed with the IASB's approach. As Sealy-Fisher, an NZICA staffer remarked, the FRSB had a top down approach to differential reporting, starting with IFRS and adapting the standards to accommodate small and medium sized entities.⁶⁷ The IASB's approach, on the other hand, said Sealy-Fisher, was bottom up, producing a set of standards for small and medium sized entities separate from those for profit oriented entities, which introduced the risk of similar transactions being treated differently in different entities.⁶⁸ The FRSB also noted that the proposed IASB standards for small and medium sized entities were actually for entities that, under New Zealand legislation, were large and not publicly accountable.⁶⁹

⁶⁶ *Framework for Differential Reporting* was one of seven standards released in 1992 defining New Zealand's conceptual framework.

⁶⁷ V. Sealy-Fisher, 'Financial Reporting by small and medium sized entities,' *The Chartered Accountants' Journal*, 85:6 (2006), pp.27-30.

⁶⁸ G. Whittington, on the contrary, saw the IASB's approach as top down. To him, New Zealand's approach was also top down, just more so. G. Whittington, 'IASB's Exposure Draft on new international standard for SMEs,' *The Chartered Accountants' Journal*, 86:6 (2007), pp.16-18.

⁶⁹ Whittington (2007). Smaller entities, such as charities, could be publicly accountable.

The FRSB produced a discussion paper on the IASB discussion paper giving the board's 'Preliminary Views on Accounting Standards for Small and medium sized entities'. The IASB project was still at the research stage and not yet producing enough detail for application in New Zealand. In 2005, recognising that many smaller entities and their accountants wanted speedy improvements in the current New Zealand differential reporting system the FRSB produced ED-98 Framework for Differential Reporting. The FRSB hoped ED-98 would be 'a short term conversion of the existing differential reporting framework.'⁷⁰ In the exposure draft the FRSB increased the limits defining a small and medium entity.⁷¹ While increasing the limits exempted a greater number of smaller entities from producing external financial reports the FRSB acknowledged that more needed to be done than waiting for the IASB standards. The Not-For-Profit Taskforce, recognising that many not-for-profit entities were small, recommended in its 2006 Report that the Government review the legislative reporting requirements for all small entities.

At the beginning of 2007 the IASB issued ED IFRS for Small and Medium-sized Entities. As part of the FRSB process of consultation on the international standards, Perry, the Chair of the FRSB, and Sealy-Fisher visited many centres in New Zealand, talking with NZICA members about the IASB's exposure draft. The FRSB quickly found that Institute members were not interested in comparing the merits of NZ IFRS with its differential reporting framework and the IASB's IFRS for SME. Smaller entities and their accountants did not see the need for preparing external financial statements at all, preferring the reporting entity system in Australia where smaller entities were exempted. The FRSB agreed and recommended to government that the law be changed. Thus, there was considerable pressure from the Institute, through the FRSB, and outside groups, such as the Office of the Auditor-General, for a review of the financial reporting system in New Zealand.

Reviewing the Statutory Framework for Financial Reporting

The Ministry of Economic Development's 2008/2009 review of the statutory framework for financial reporting in New Zealand was comprehensive, leading to

⁷⁰ V. Sealy-Fisher, 'Differential reporting and financial reporting by SMEs- an update,' *The Chartered Accountants' Journal*, 84:6 (2005), pp.14-16.

⁷¹ An entity was now exempt from preparing general purpose financial reports under the Differential Reporting Framework if it fulfilled two of these criteria- fewer than 50 employees; total assets less than \$10 million; annual gross operating revenue less than \$20 million.

recommendations for significant alterations in New Zealand's standard setting process. The review followed an earlier review of the Financial Reporting Act 1993 that the Ministry had conducted in 2003/2004. That review led to the Financial Reporting Amendment Act 2006 which did not suggest alterations to the standard setting system. However, suggestions put out for discussion at the time of the 2003 review went further, advocating extending the functions and authority of the ASRB.⁷² The FRSB's submission to the Ministry recommended that differential reporting and public sector criteria remain in the financial reporting structure. Mindful of the ultimate goal of harmonisation of standards with Australia, the FRSB also recommended that New Zealand align its financial reporting structure as closely as possible to the Australian financial reporting structure. To do this, the FRSB suggested that the New Zealand financial reporting structure adopt the Australian reporting entity concept.⁷³

In its submission to the 2008 review, the FRSB continued to favour a differential reporting regime. The FRSB suggested that two groups of entities should prepare external financial reports large entities, about which investors needed information to which they did not have ready access, and public sector entities, that were accountable to the community.⁷⁴ Smaller entities, the FRSB recommended, would no longer need to prepare unnecessary external financial reports. The Institute would benefit from these changes, too, because such a move was cost effective. Developing accounting standards was expensive and, as noted earlier, the Institute had been considering how to finance this area of its operations. Public sector entities and large profit making entities in the private sector were a small percentage of all New Zealand entities. If these entities used IFRS and small entities did not prepare external financial reports, the Institute would reduce its costs of standard setting.

In September 2007, the ASRB issued Release 9: Adoption of New Zealand Equivalents to IFRS for Certain Small Entities as an interim measure while the review was being conducted, to help smaller entities that were concerned about the costs of complying with IFRS. Under Release 9 NZ IFRS were no longer mandatory for not-

⁷² M. Wilson, 'Review of the Financial Reporting Act 1993,' *The Chartered Accountants' Journal*, 83:11 (2004), pp.16-17.

⁷³ An entity is a reporting entity if there are users who are dependent on general purpose financial reports for information for decision-making. A reporting entity is required to prepare financial statements that comply with GAAP.

⁷⁴ J. Perry, 'Institute Comment: Review of the Financial Reporting Framework,' *The Chartered Accountants' Journal*, 87:6 (2008), p.4.

for-profit and certain small entities. Release 9 exempted entities that did not issue securities, as defined in the 2006 Act or which were not large or required to file financial statements with the Registrar of Companies as defined in Section 19 of the Companies Act. Also in 2007, the FRSB extended the exemptions from using NZ IFRS to entities that were not large as defined in the Framework for Differential Reporting, not subject to the Financial Reporting Amendment Act 2006 and not publicly accountable.⁷⁵

Thus, since 2007, NZ IFRS has applied only to large issuers, entities that were subsidiaries of overseas companies and most public sector entities. These measures by the ASRB and FRSB meant that New Zealand had two sets of GAAP the standards in place before 2007, referred to as Old NZ GAAP, and NZ IFRS.⁷⁶ The FRSB continued to monitor IASB releases and kept open the options of whether to continue with its own differential reporting regime or adopt the IASB's IFRS for SME.⁷⁷

In September 2009, the Ministry of Economic Development released a discussion document along with a companion paper from the ASRB. The Ministry proposed a new system of financial reporting that differed significantly from the existing system, incorporated many of the changes that the different sectors wanted and, in accordance with government policy, looked to eventual convergence with the Australian system of financial reporting.⁷⁸ In its document, the Ministry proposed that the ASRB be replaced with an External Reporting Board (XRB) that had wider powers than the ASRB and that would be responsible for New Zealand's standard setting strategy, development and approval of the standards. The Ministry also proposed three tiers of financial reporting, for the private sector, the public sector and private sector non profit entities.

The ASRB's paper, on the other hand, focused on the details of what accounting standards different New Zealand entities should use. The Board agreed in general with the Ministry recommendations with some suggested changes to the

⁷⁵ J. Perry and K. Crook, 'Future of financial reporting requirements for SMEs,' *The Chartered Accountants' Journal*, 86:6 (2007), p.12.

⁷⁶ S. George, 'Adoption delayed pending review,' *The Chartered Accountants' Journal*, 87:6 (2008), pp.25-27.

⁷⁷ J. Perry and K. Crook, 'Financial Reporting by small and medium sized entities,' *The Chartered Accountants' Journal*, 87:4 (2008), pp.6-7.

⁷⁸ Ministry of Economic Development, *The Statutory Framework for Financial Reporting*, Discussion Document, (Wellington, Ministry of Economic Development, September 2009), Executive Summary.

process of financial reporting.⁷⁹ The ASRB considered that accounting and assurance standards development should remain separate, suggesting that the proposed External Reporting Board incorporate two boards, one to focus on accounting standards and the other board to control assurance standards. The Institute, responding to the ASRB paper, acknowledged that a local standard setting body was necessary to review international standards as they were issued by the IASB and IPSASB to ensure they complied with New Zealand legislation and requirements.⁸⁰ The Institute was not concerned about the standard setting body being independent of the accounting profession.⁸¹

A New Zealand based body was necessary to consult national groups affected by accounting standards, make submissions as necessary to international standard setting bodies and contribute to international standard setting. Whether that will prove to be one body, whether part or independent of the Institute, or two bodies, one within and one outside the Institute is yet to be seen. The Institute, however, continued to believe that it was well qualified to participate in both the local and international standard setting bodies. For New Zealand to be able to influence international standard setting the Institute needed to maintain contact with international standard setters, consider discussion papers issued by international standard setters and comment on the quality of international standards.

The ASRB paper acknowledged the three tier structure for entities outlined in the Ministry document and in its paper proposed sector specific financial reporting requirements on the grounds that these reflected the difference in user needs.⁸² The ASRB agreed with the Ministry recommendation for differential reporting in the private sector. In the ASRB paper, private sector entities would be exempt from preparing general purpose financial reports and hence following New Zealand GAAP if they fulfilled two of three criteria: they did not issue securities, and hence were not publicly accountable, were not large, as defined by Section 19 of the Financial Reporting Amendment Act 2006, or there was no separation of ownership and

⁷⁹ Accounting Standards Review Board, *Proposed Application of Accounting and Assurance Standards under the Proposed Statutory Framework for Financial Reporting*, Discussion Document, (Wellington, Accounting Standards Review Board, September 2009), Executive Summary.

⁸⁰ T. van Zijl interview 16 July 2009; A.L. Mackenzie interview 19 June 2009.

⁸¹ T. van Zijl interview 16 July 2009 K. Simpkins interview 15 July 2009; J. Perry interview 18 September 2009; A.L. Mackenzie interview 19 June 2009.

⁸² Accounting Standards Review Board (2009), Executive Summary.

management. The Ministry had estimated that this would be about 98-99% of private sector entities.

Both the Ministry and the ASRB agreed that public accountability in all sectors was an underlying principle in determining whether an entity needed to prepare general purpose financial reports. Public sector entities, therefore, whether for-profit or non-profit and no matter what their size, would be required to prepare general purpose financial reports because they were publicly accountable. Those entities that accepted donations with annual operating expenses of \$20,000 or more, as set out in the Ministry document, would have to prepare financial reports as would any other private sector non profit entities that by legislation had to do so. However, many private sector non profit entities would be exempt from preparing general purpose financial reports. Entities registered with the Charities Commission, for example, would have to prepare the financial reports but unincorporated societies would not have to prepare the reports.⁸³

Taking the three tiers of entities that the Ministry proposed that needed to prepare financial reports, the ASRB's paper suggested that the public sector and not-for-profit sector be considered together as public benefit entities. Thus, the ASRB recommended that accounting standards apply to two groups of entities private sector entities who fulfilled two of three criteria, issuing securities, that were large in size and had separate owners and management and public benefit entities. Within the private sector entities that needed to prepare general purpose financial reports the ASRB suggested two tiers. The first tier would comprise entities that fulfilled the IASB criteria for being publicly accountable. The second tier would have entities that did not issue securities, large profit making organisations that were not companies and entities that issued securities not traded in a public market. The first of those two tiers, the ASRB suggested, should follow IFRS. The second of the private sector tiers should use either IFRS for SME as issued by the IASB or a differential IFRS developed jointly by New Zealand and Australia.⁸⁴

Within the public benefit entity sector, the ASRB suggested three tiers of reporting that were distinguished by the level of operating expenditure rather than the type of entity. The first tier, the ASRB recommended should cover public sector entities that had expenditure of more than \$20 million. Any public sector entity that

⁸³ Ministry of Economic Development (2009), Executive Summary.

⁸⁴ Accounting Standards Review Board (2009), Executive Summary.

received revenue from compulsory levies should follow IPSAS while not-for-profit entities with expenditure of more than \$10 million dollars should use IPSAS adapted to apply in the not-for-profit sector. The second tier would encompass public sector entities that had expenditure between \$20 million and \$2 million, not-for-profit entities that spent between \$10 million and \$1 million dollars each financial year, plus any small public benefit entities that were issuers. These entities, the ASRB proposed, would use a differential version of Tier 1 standards. The third tier of public benefit entities would include public sector entities that had operating expenditure of less than \$2 million and not-for-profit entities that spent less than \$1 million. The ASRB recommended that Tier 3 entities use Simple Format Reporting that was accrual based and produced simple statements of financial position, financial performance and service performance.⁸⁵

Overall, the ASRB, who drafted their paper in cooperation with the FRSB, agreed with the Ministry of Economic Development that the standard setting body in New Zealand should be distinctly separate from the Institute and have more responsibility for standard setting than the existing ASRB, combining the tasks of the ASRB and FRSB. The Institute would relinquish responsibility for drafting or reviewing accounting standards and differential reporting would become more complex but more responsive to the varying needs of entities. The Institute also hoped that accounting standards remained transaction neutral and principle-based.⁸⁶

Both the Ministry and ASRB papers took into account a future standard setting regime that incorporated Australia. The standard setting body recommended by the Ministry of Economic Development could become a combined New Zealand-Australian body, approving international accounting standards altered to comply with the two countries' legislation, thus confirming the speculation Rahman *et al.* made two decades ago.⁸⁷ Such a move would contribute to the national goal of a single trans-Tasman economic market. Alternatively, the External Reporting Board could act as a strategic, supranational body with the two countries maintaining their own

⁸⁵ Accounting Standards Review Board (2009), Executive Summary.

⁸⁶ New Zealand Institute of Chartered Accountants website. www.nzica.com.nz Go to Standards and Policy, Financial Reporting and Assurance Framework.

⁸⁷ The Ministry of Economic Development expects the External Reporting Board to be operating by the middle of 2011; As early as 1991, some members of the Institute were suggesting a merger of the two standard setting bodies. See A.R. Rahman, M.H.B. Perera and G.D. Tower, 'Towards an accounting regulatory union between New Zealand and Australia,' *Discussion Paper Series: 118*, (Palmerston North, 1991).

standard setting bodies. While having one standard setting body would ensure uniform accounting standards, having two separate standard setting bodies would give the two countries a greater say in international forums. The AASB and FRSB, as noted earlier, are already working closely together and therefore in some respects are one, admittedly virtual, board.⁸⁸ Because they are officially separate, they each have a say on international matters.

While the Institute has agreed with the proposed changes to financial reporting in New Zealand the Institute does not see itself losing the ability to influence the financial reporting framework in New Zealand. The new financial reporting framework is independent of the accounting profession but the Institute expects the profession, rather than itself as the professional accounting organisation, to be represented on any new standard setting or approving bodies. In addition, the Institute most probably will have technical committees preparing submissions to the independent standard setting body.⁸⁹

The benefits for the public sector include recognition of their needs as opposed to the not-for-profit sector. Differential reporting remains with medium and small entities not having to prepare unnecessary financial statements. The accounting profession also benefits. The changes to financial reporting recommended in the Ministry of Economic Development document relieve the Institute of both responsibility for and the direct costs of setting accounting standards in New Zealand.

Conclusion

This chapter discussed the implications of the 2002 New Zealand decision to adopt IFRS from 2005, in particular the factors influencing that decision, how the New Zealand accounting profession went about developing NZ IFRS in an attempt to keep New Zealand standards sector neutral and the consequences of the decision. The New Zealand decision to adopt IFRS seemed to solve the reasons for many criticisms and issues about standard credibility and entity compliance. However, the decision raised some new issues, the most prominent being the inability of New Zealand to retain sector neutral standards.

⁸⁸ J. Perry interview 18 September 2009. The Institute has also formed an alliance with the Institute of Chartered Accountants in Australia (ICAA) to collaborate on a number of projects in addition to a tripartite alliance with the ICAA and the Chartered Institute of Public Finance and Accountancy.

⁸⁹ J. Perry interview 18 September 2009.

The New Zealand decision to adopt IFRS illustrated how significant the international dimension was in standard setting, for, as Ravlic demonstrated, New Zealand followed Australia which in turn followed Europe in deciding to adopt international standards.⁹⁰ Using IFRS was the new standard setting process in many countries. The New Zealand decision was also part of the New Zealand profession's strategy to converge with Australia in standard setting.⁹¹ This chapter showed that the costs of standard setting helped the New Zealand Institute make its decision, for, as Rahman *et al.* noted, it was cost effective for New Zealand to merge with Australia and use international standards.⁹²

The decision had the support of many groups in the New Zealand economy. IFRS had international credibility and with more New Zealand entities trading in a global environment using IFRS made preparing external financial statements more cost effective. Entity compliance, a concern of both the profession and the state, was expected to improve. Other consequences were not foreseen.

The New Zealand Institute expected to adapt IFRS to make them sector neutral. This proved not possible and the public sector dissociated itself from NZ IFRS.⁹³ Also, the issue of differential reporting, as Bradbury and Baskerville noted, was not solved with IFRS. Accordingly, two major government inquiries have produced a new financial reporting regime that separates not only public entity requirements in financial reporting from private entity requirements but also introduces a structured differential reporting regime.

The implications of these changes for the New Zealand Institute were significant. New Zealand moved from being a standard maker to a standard taker for it seemed that the New Zealand Institute was no longer going to be a standard setter and that this was with the agreement of the profession. But while this is so for the New Zealand Institute as the setter of New Zealand accounting standards it is not so for the New Zealand Institute in the international standard setting arena. This thesis argues that creating a set of sector neutral accounting standards from 1992 enabled the Institute to acquire a role in international standard setting greater than its size would warrant. It was that uniqueness that 'gave [the Institute] a foot in the door to many international groups' as standard setting organisations overseas used New Zealand to

⁹⁰ Ravlic (2003).

⁹¹ Bradbury (1998); Goldfinch (2000); Mein Smith *et al.* (2008).

⁹² Rahman *et al.* (1991).

⁹³ Brady (2009).

alter their focus on standard setting.⁹⁴ The Institute still has representatives on international standard setting committees and actively responds to exposure drafts and discussion papers released by international standard setting organisations.⁹⁵

The evidence provided by the history of the New Zealand Institute suggests that the accounting profession has not abandoned standard setting. Instead, standard setting appears to have become an international rather than a national accounting professional activity. How the New Zealand Institute carries out standard setting has altered from being a lone national accounting association regulating external financial reports of local entities to an association participating with other national associations in an international accounting association that creates standards for the use of entities in many countries. The evidence in this chapter shows that the motives of the accounting profession have not changed with this alteration in the financial reporting regime. The profession is still acting in the public interest, except that the public is now multinational, and in self interest, for the profession is able to maintain its dominance in standard setting and hence it is possible for standard setting to remain a professional activity and professional project.

⁹⁴ A.L. Mackenzie interview 19 June 2009.

⁹⁵ In 2006, W. Allen was appointed to the Board of IFAC, the first New Zealander since A. Mann 20 years before. R. Macdonald for 10 years was on IFAC's Education Committee, 7 years as Chair.

Conclusion

...we would start to understand what generally accepted accounting practice was. It was never codified but there was this mystery and you started to realise that there were indeed these very firmly entrenched rules, but they were never in writing. But when we got to the States they were in writing and they'd codified a lot of accounting practice by this time, 1963... and I had a lot of regard for that and felt that this was the way. Because people need to have something to refer to, to understand what is the benchmark against which we work...¹

In this excerpt from his interview Don Trow recalls the beginnings of standard setting in New Zealand, a time when the accounting profession moved from individual autonomy and the application of personal skills and judgement to providing standardised regulations in external financial reporting. Trow's statement leads into the questions I had about the history of accounting standards in New Zealand. Why and how did the accounting profession codify the unwritten 'firmly entrenched rules'? What form did the process take, and, noting that Trow was referring to actions of the American profession, what were the international connections in standard setting? What changes have occurred in accounting standard setting since standards were created earlier last century, and why? And how has the role as the setter of accounting standards affected the accounting profession's reputation in its relationship with other groups in society, particularly the state?

I was interested in these questions as they applied to the accounting profession in New Zealand. In the course of my research I found that accounting standards in New Zealand were developed by one organisation, the New Zealand Institute. Accordingly this thesis evolved into a study of the role of the New Zealand Institute as standard setter. To give perspective to the New Zealand history of standard setting I also needed to see how and to what extent the New Zealand profession's role in standard setting was similar to and different from the profession's role in other countries. Therefore, in this thesis I explored my research questions by analysing the history of standard setting in New Zealand relating this for the most part to standard setting in the United Kingdom and Australia. I did so within the theoretical framework of Larson's model of professional behaviour, which provided my hypothesis to test: was standard setting an accounting professional project?

¹ D. Trow interview 15 July 2009.

Methodology

As outlined in chapter one, this thesis is positioned within accounting history, which, as Napier observed, ‘returns the human aspect of accounting firmly to the centre.’² Therefore, this thesis examines the actions of the accounting profession, investigating why and how the accounting profession became a standard setter. As chapter one showed, the methodology for this thesis may be observed from two perspectives, type of study and the research methods used. This thesis is first an analytical historical study where the events in the history of standard setting in New Zealand are placed in chronological sequence in order to illuminate trends, patterns and the broader context of change over time. The thesis does this by recounting the role of the New Zealand Institute as standard setter, what happened and the causes and consequences of events. As the literature showed, there are similar studies in accounting history, such as Rutherford’s study of the United Kingdom’s Accounting Standards Committee.³ However, this thesis goes further than Rutherford by investigating a series of standard setting boards within the one accounting association.

This thesis follows the work of Flanigan *et al.* and Willmott, and analyses the New Zealand Institute’s history as an interactionist study focused on the motives of the profession for becoming a standard setter and how it carried out its role as standard setter within New Zealand society.⁴ Furthermore this thesis integrates theory and history, by analysing the history within a theoretical framework. This framework is more than a means of evaluating the New Zealand history; it makes this study worthwhile because it allows the New Zealand history to be used as a case study. Comparing standard setting in New Zealand with that of other countries will allow broader conclusions on professional behaviour.⁵

The empirical evidence in this thesis came from archival and oral research. Archival research was a logical method, given that the thesis is an evaluation of the standard setting role of the New Zealand Institute. Others, such as Loft, Hoskin and Macve, have used this method in their studies of the American and British professions.⁶ But the paucity of data in the Institute’s archives necessitated the use of interviews to confirm and augment archival material. Combining the two

² Napier (2009), p.44.

³ Llewellyn (1999); Rutherford (2007).

⁴ Flanigan *et al.* (1994); Willmott (1986).

⁵ Napier (2009); O’Dwyer (2004)

⁶ Loft (1986); Hoskin and Macve (1988).

methodologies has particular advantages, not the least being that the information from the interviews added depth to the archival material and gave substance to the study.

The literature and the theoretical framework

This thesis focuses on the role of the New Zealand Institute as the setter of accounting standards and, as chapters one to four showed, may be placed within the literature on standard setting, its nature and evolution as well as the literature on professional associations and how they have carried out standard setting. As chapter one showed, in accounting history there are, for example, Willmott *et al.*'s study of the motives of the ICAEW as standard setter, Carnegie's examination of the Australian accounting profession and Gaffikin and Aitken's collation of significant contributions to accounting thought. In accounting, there is Storey and Storey's evaluation of the role of the FASB in developing financial accounting theory.⁷ There is also much literature on the activities of accounting associations in the United Kingdom, United States, Australia, Scotland and Ireland.⁸ The literature on accounting associations and their involvement in standard setting is also relatively extensive, including Edwards on the international dimension of standard setting and Tinker, Robson, Richardson and Kilfoyle's findings on the relationship of the associations and the state.⁹ As this thesis shows, there is literature on the New Zealand accounting profession ranging from the general histories of the New Zealand Institute by Graham and Millen to critical studies such as those of Newberry and Boston *et al.*¹⁰

This thesis touches on aspects of much of this literature. It is similar to the general histories in that it is a narrative covering events over several decades, but it is different in that it focuses on one activity, standard setting. The thesis adds to the literature in that it aims to identify and analyse the major episodes in the Institute's history of standard setting but particularly because it sets the Institute's actions within the context of professionalisation as it examines the use of standard setting as a professional activity. As such, the thesis is similar to the studies of Lee, West and Rutherford. Lee and West question the motives of the profession as standard setter

⁷ Willmott *et al.* (1993); Carnegie (2009); Gaffikin and Aitken (1982); Storey and Storey (1998).

⁸ Chua and Poullaos (1993); Chua and Sinclair (1994); Walker (1988 and 1995); Annisette and O'Regan (2007); Carnegie (1993).

⁹ Edwards (1989); Tinker (1984); Robson (1994); Richardson and Kilfoyle (2009).

¹⁰ Graham (1960); Millen (1985); Newberry (2002); Boston *et al.* (1996).

and its efforts to maintain its role as standard setter.¹¹ So too does this thesis. Rutherford narrates the history of a standard setting body. This thesis also does this and in addition considers the role of an accounting association and its standard setting bodies. But this thesis follows one study in particular, that of Zeff, who began an examination of the role of the New Zealand Institute as standard setter.¹² As does Zeff, this thesis uses archival and oral history to obtain the information to analyse the history of standard setting in New Zealand.

Unlike Zeff, this thesis places the activities of the New Zealand Institute as standard setter within the theoretical framework of Larson's model of professional behaviour.¹³ Larson's model came from studies on how occupational groups became professions and how they maintained their reputations as professionals. As such these studies were interactionist, focussing on how and why the professions related to other groups in society. Larson proposed that the process of professionalisation may be considered as a professional project where those in an occupation worked actively to be accepted as professionals. The professional project in Larson's model was characterised by the collective actions of groups to acquire power from knowledge and ongoing actions by these groups to maintain monopoly of delivery of services using that knowledge. This thesis explored the possibility of Larson's model of professional behaviour being applied to the accounting profession as standard setter, using the New Zealand history as a case study to provide the empirical evidence to test the hypothesis.

There is a precedent for using Larson's model of professional behaviour to examine accounting. Macdonald applied Larson's model to the accounting profession in the United Kingdom, showing that the profession's dominance of accounting services such as auditing matched the characteristics defined by Larson and therefore may be considered professional projects.¹⁴ Macdonald showed that the accounting profession's power came from state backing for the profession to have monopoly of auditing, a move which he concluded was critical to the success of the professional project. Accordingly, he extended Larson's characteristics to include the profession-state relationship. This thesis follows Macdonald by applying the evidence from the history of standard setting in New Zealand to Larson's model.

¹¹ Lee (1995); West (2003).

¹² Zeff (1979).

¹³ Larson (1977).

¹⁴ Macdonald (1995).

Other researchers have made use of one or more of Larson's propositions from the model in their studies of the professionalisation of accounting, looking in particular at the actions of the accounting associations to acquire power from knowledge, as Hines, for example, illustrated in her study of the American profession, and acquiring and maintaining monopoly of practice, as Walker showed in his study of the Scottish profession and Poullaos summarised in his survey of the professionalisation of accounting.¹⁵ Macdonald, Walker and Poullaos' research examined accounting actions and services that the profession monopolised early in its history; services such as auditing and actions such as titles, examinations and qualifications for entry to the profession.

Hines' study, and West's on the profession's use of accounting standards to maintain monopoly as standard setter, are different from Macdonald's, Walker's and Poullaos', in that they focused on standard setting rather than other accounting activities. In New Zealand, researchers such as Keenan, Velayutham and Perera have also studied the profession as standard setter. This thesis is similar to these studies in its focus on the profession as standard setter but the thesis adds to the work of these researchers by studying the actions of the profession from its beginnings as a standard setter rather than being a study of one or two particular episodes.

This thesis also differs from these studies on standard setting in taking a more fundamental approach to the accounting profession as standard setter. Hines and West assumed that setting accounting standards was a means for the accounting profession to professionalise.¹⁶ Keenan and Velayutham and Rahman made the same assumption in their studies on one event in the Institute's standard setting history, the government's creation of the ASRB.¹⁷ This thesis does not make this assumption. Rather this thesis asks if this assumption is true and investigates it through a detailed examination of the New Zealand Institute's history as standard setter. If standard setting is indeed a professional project of the accounting profession, as per Larson's model of professional behaviour, then the timing of the profession becoming standard setter is interesting. Why was it, as this thesis showed, that the accounting profession became a standard setter as late as the middle of the twentieth century? This study considered why, if standard setting is indeed a professional project, it was not used

¹⁵ Hines (1989); Walker (1991); Poullaos (2009).

¹⁶ West (2003).

¹⁷ Keenan (2000); Velayutham and Perera (1996).

earlier by the profession and if the timing implies that a profession changes its professional projects over time.

The history and the theoretical framework

Chapters five to eleven described the role of the New Zealand Institute as standard setter and analysed them in the light of the theoretical framework. The findings in those chapters showed two major patterns or themes in standard setting, the regulatory nature of accounting standards and the ways that New Zealand was the same and different from other countries in standard setting. A consideration of these two patterns allowed an identification of the characteristics of Larson's model of professional behaviour, making it possible to apply the model to the findings of the New Zealand history.

The regulatory nature of accounting standards

Accounting standards are the means by which the accounting profession regulated external financial reporting. It is therefore understandable standards have a regulatory nature. But the New Zealand Institute's history as standard setter reveals a pattern that shows the Institute over time making standards increasingly regulatory. This section considers why and how the nature of the standards altered.

Until the 1940s, the New Zealand profession, as in the United Kingdom and Australia, did not consider regulating an accounting service and was reluctant to suggest how external financial reporting should occur beyond the directions in the Companies Act. Once it did begin setting standards, the Institute's control of standard setting led to New Zealand standards going from ICAEW guidelines in 1946 to compulsory standards just under fifty years later. It is evident from the case study that the evolving regulatory nature of accounting standards had its internal origins in the debate within the profession on whether the standards should be practical or theoretical and rules-based or principles-based and external origins in pressure to improve the effectiveness of the standards. Although by their nature all standards are rules because they regulate, standards may be more or less rules-based. Because of its close relationship with the United Kingdom before the 1970s, New Zealand followed the British evolution of standards which meant that on a continuum from principles-based to rules-based, standards here were more principles-based.

Once the accounting profession agreed to become the standard setter, regulating external financial reports gave the profession a high profile in the community and hence was capable of affecting the profession's reputation. As this thesis demonstrates, the Institute therefore treated standard setting as a professional activity. Consequently, when under pressure and receiving criticism about the effectiveness or appropriateness of standards, the Institute responded by making the standards more regulatory. The repetition of economic events such as share market crashes and varying entity responses to individual standards led to more regulations in financial reporting. Even the apparently liberal economic climate in New Zealand in the 1980s produced more complex regulations, in this case in the public sector as increasing state expectations of public sector accountability led to a greater need for regulatory oversight.¹⁸

Although the increasingly regulatory nature of standards was a progression, this does not necessarily imply a linear progression of ever higher quality standards.¹⁹ Nobes and others describe the evolution of standard setting as a series of cycles, with the profession's development of standards occurring regularly in a prompt-response fashion.²⁰ This was especially evident, as in New Zealand, when economic scandals threatened the public credibility of external financial reporting.²¹ In New Zealand, for example, the predatory moves of investment companies such as Brierleys and Equiticorp caused some concern prior to the 1987 share market crash, leading to the Institute's support for compulsory accounting standards.²²

The actions of the New Zealand Institute as standard setter show that, like standard setting bodies in the United Kingdom and Australia, it attempted to give the standards more authority, enhance their credibility and hence entity compliance with the standards, because, as the subtitle of Solomons' book on the development of accounting theory in the United States indicated, credibility was an important element for the success of standard setting.²³ The New Zealand Institute used its standard setting committees and boards to determine and refine the standards and hence increase the reliability of the standards. This suggests why, when New Zealand universities created accounting departments in the early 1960s the new accounting

¹⁸ Baldwin *et al.* (2010), p.17.

¹⁹ Carnegie and Napier (1996).

²⁰ Nobes (1991); Clarke (2004); Cooper and Deo (2005).

²¹ Clarke and Dean (2007).

²² Grant (1997).

²³ Solomons (1986).

professors became members of BRAP. The Institute's academic approach to standard setting remained for the next thirty years in the ARSB and then the FRSB. Until the late 1980s this was the extent of the New Zealand effort to produce a more theoretical approach to standard setting. However, as is evident from comments such as that of Trow in 1974, BRAP and the ARSB took advantage of developments in financial accounting theory elsewhere to improve the credibility and effectiveness of New Zealand standards. This thesis argues that the profession persisting over several decades from the 1960s in what Lee has described as an arguably futile search for a generally agreed conceptual framework indicates the seriousness with which it carried out its role as standard setter, confirming standard setting as professional behaviour.²⁴ The ARSB was working as late as the early 1990s to develop a conceptual framework for New Zealand standards.

If standard setting was a professional activity then the profession would act to ensure that its reputation as standard setter was as high as possible. One way to do this was for the profession to dominate standard setting and hence control the activity. This thesis argues that the profession did so and that this is evident in the development of financial accounting theory. Setting accounting standards required specialised knowledge and improving the value of the standards required financial accounting theory, even more specialised knowledge. The accounting profession controlled the accounting knowledge used in standard setting, not by restricting access to that knowledge, but through its efforts to improve that knowledge and find an acceptable theoretical base for accounting standards. The difficulty the profession has had in doing so is a consequence of the origins of the standards, for they began as a formalising of accounting practice. The New Zealand history showed the sustained efforts the profession made to have standards developed in an academic manner from first accounting principles, making the standards consistent and coherent and therefore easier to comply with, culminating in the Institute producing a conceptual framework for New Zealand standards in 1993. This thesis argues that these efforts highlight the profession's acceptance of standard setting as a professional activity for the profession's reputation came in part from the credibility of the standards. The evolving regulatory nature of standards may be interpreted as a sign that once the

²⁴ Lee (2009).

profession agreed to be a regulator, standard setting became a professional activity and a means of increasing the professionalisation of accounting.

What makes New Zealand different or the same?

Perry, a member of the FRSB from its establishment in 1992 and Chair since 2004, identified five milestones in New Zealand standard setting in the past twenty years. Three of the five, New Zealand joining the G4+1, closer relations with Australian standard setters and adopting international accounting standards, involve the Institute's relationship with the international accounting community. These three milestones were the responsibility of the Institute and internal to the profession. Perry's remaining two milestones, the Financial Reporting Act 1993 and making New Zealand accounting standards sector neutral, were the result of political and economic events in New Zealand in the 1980s, demonstrating the influence of external elements on the Institute as standard setter, including legislation and the political climate.

Perry's milestones are evidence of a number of patterns this thesis found in the history of the New Zealand Institute's role in standard setting which show how New Zealand standard setting is both different from and similar to histories elsewhere. These patterns are considered separately in this section. First there is the role of the New Zealand Institute itself as a professional association and a standard setter. Then there are the motives for the Institute to accept the role of standard setter. Two further significant patterns are the international dimension in New Zealand standard setting and the influence of government on Institute decisions. A factor common to these patterns was the New Zealand Institute's concern with the financial cost of being a standard setter.

Accounting associations

In New Zealand standard setting has been the province of one association, the New Zealand Institute, contrasting with standard setting in the United Kingdom, United States and Australia where more than one accounting association has been involved in standard setting. For the past seventy years the Institute was the sole drafter of accounting standards and, for fifty of those years, the issuer of the standards. An examination of the Institute as standard setter makes a case study of the accounting profession as standard setter and allows the possibility of applying the findings of this study to countries where more than one professional organisation and

statutory bodies are involved in standard setting. This thesis argues that the similarity of histories in standard setting in New Zealand and other countries such as Australia and the United Kingdom suggests that competition between accounting associations or between the accounting profession and other occupations may not be as important in standard setting as the nature of accounting standards and the desire for accountants to make use of accounting methods and knowledge developed elsewhere. Having one institution undertaking standard setting, as in New Zealand, simplified this study and allowed an examination of the motives of the profession as standard setter.

The Institute's standard setting structure was also similar to that of its standard setting counterparts overseas. Although a few years later than accounting associations in the United Kingdom and Australia, the Institute established its first standard setting board, the APPC, in 1950 and since that time has consistently had a board drafting, or monitoring committees drafting accounting standards. Membership of the boards reflected those interested in external financial reporting, especially public accountants and financial officers from some of the larger New Zealand entities. From the 1960s the boards have also had academic members, able to undertake necessary research and absorb changes in financial accounting theory being developed overseas. The Institute was thus structured as a standard setter and it is evident from the history that the process of developing standards was similar to that in the United Kingdom and Australia, from using exposure drafts to collect comments on proposed standards to cooperating with the establishment of a statutory standard authorising board in the 1990s. Standard setting was thus one of the services the Institute gave to New Zealand society, and hence may be considered a professional activity.

But this investigation of the Institute revealed that, despite its formal organisation as standard setter, Institute members were never completely in agreement with its role as regulator, casting some doubt on whether the profession actually considered standard setting a professional activity. In the years prior to the introduction of the ICAEW guidelines in 1946 Institute members debated whether to have national or individual level research and in so doing were arguing about the purpose of accounting and hence, among other issues, whether it had a role in regulating external financial reporting. Those members advocating that the Institute should carry out formal research saw improving existing practice as a professional public duty. Members opposed to formal research were not denying the importance of

public duty but considered that this was fulfilled through individual endeavour. For these members the Institute was there to represent them, not impose particular methods of accounting practice. The creation of the APPC was a signal that the Institute was prepared to do more than represent members, and leading to the Institute becoming a standard setter.

Even with the Institute officially being a standard setter there were instances, as this study showed, when members either voted against committing to research on standardising external financial reports or when Council needed strong persuasion to accept a proposed standard. There was the debate over SSAP-17, for example. This standard may have been theoretically sound but the members who opposed it were successful, as Rahman *et al.* and Keenan noted, in persuading the Council to order its withdrawal.²⁵

Internal disagreement over an accounting service did not necessarily signal the impossibility of that service being a professional activity. Other means of professionalisation, ones the profession has used longer, such as controlling access to entry to the profession, were also the subject of internal debate. For example, the Institute's journal showed continual member criticism of the Institute's qualifications system and examination papers. Internal debate also did not mean that those opposing standard setting saw standards as a non-professional activity. Rather, these members did not see the need for the Institution to be a standard setter. But the majority of Institute members did see standard setting as a professional obligation, as frequent statements by Institute Presidents showed. Consequently, standard setting became an accounting service, a professional activity of accountants. The New Zealand profession was not alone in this internal debate. Carey outlined a similar division within the American accounting profession as it moved towards standard setting, and Zeff's studies on the profession in a number of countries, including Australia, showed evidence of the same debate.²⁶

Certainly the divisions within the profession over these standards highlighted aspects of standard setting that added to difficulties for the profession as standard setter. This thesis argues that the ongoing internal debate did not alter standard setting as a professional activity once the profession became a standard setter. Indeed, the debate may be interpreted as confirmation that standard setting was a means of

²⁵ Rahmand *et al.* (1994); Keenan (2000).

²⁶ Carey (1969 and 1970); Zeff (1972, 1973 and 1979).

professionalisation, because one reason for the debate was the link between standard setting and the professional reputation of accountants.

Disagreements within the profession over the necessity or effectiveness of individual standards sometimes arose because the profession was vulnerable to outside pressure. Entity responses to SSAP-8 and CCA-1 and the New Zealand public's responses following the 1987 share market crash showed that the profession's reputation was determined in part by its role as standard setter. The evidence in this study shows that a case may be made for standard setting as a professional activity. This is evident in the Institute's actions in establishing standard setting boards, its standard setting process and responses to criticisms of standards.

Balancing public interest and self interest

The literature on standard setting has ascribed two motives to the accounting profession, public interest and self interest, to explain why the profession became a standard setter for external financial reporting and the evidence from this historical case study shows that both motives answer the research question, explaining why the Institute became a standard setter.²⁷ Officially, the New Zealand profession stood firmly near the public interest end of the motivation continuum but the Institute's actions could also be attributed to self interest, as when the majority of the founding members of the ASRB were from the Institute's standard setting board. Institute members acknowledged that this challenged their professional reputation as a standard setter independent of state influence but claimed that this cost was outweighed by the benefit of the experience in standard setting of the members of the new board which allowed for a smooth transition in the standard setting process.²⁸ Episodes such as this confirm Lee's conclusion that the profession could show both motives, acting in the public interest for self interest reasons.²⁹ Lee attributed the ongoing issues and debate within the profession about standard setting in part to the tension that occurs as the profession attempts to accommodate both motives. The New Zealand case study provided evidence of this debate suggesting that the New Zealand accounting profession is in the middle on the motivation continuum. The public interest is served but so is self interest. As Hickey observed '...sometimes you've got

²⁷ Walker (2004); Cooper and Deo (2005); Thornburg and Roberts (2008).

²⁸ T. van Zijl (2009).

²⁹ Lee (1995).

to think of the wider community and the public benefit a little bit more...and it obviously goes in cycles...'³⁰

Both motives help explain why the profession as standard setter is vulnerable to outside pressure. When acting in the public interest the Institute remained sensitive to the public's perception of it showing professional independence, as seen when the ASRB was created. This attitude in itself is a further sign that standard setting is linked to professional reputation and hence is a professional activity. Self interest also means that the profession is open to pressure from interested groups as it attempts to control the standard setting process so that it may retain its role as standard setter and hence maintain its professional reputation. This is evident in the Institute continuing to set standards even when seriously challenged, as with CCA-1. Both motives therefore explain why the Institute took standard setting seriously, as seen in its efforts in the early 1990s to develop a conceptual framework and pursue state support for authorising the standards.

The international dimension in standard setting

The evidence in this thesis shows that, apart from when New Zealand accounting standards were sector neutral, the events and timing in the history of New Zealand accounting standards are similar to the histories of standard setting in the United Kingdom and Australia. The evidence also shows that this is a consequence of the Institute, as standard setter, being influenced by, rather than influencing these countries. As Perkins in the 1940s argued, when trying to persuade the Institute's Council to establish a national research committee, the United Kingdom and Australia already had such committees. The evolving nature of accounting standards, from recommendations of accounting practice to TSAPs and then SSAPs, was determined by similar changes in British accounting practice. The British influence on New Zealand accounting practice was strong, stemming from the British Imperial origins of New Zealand accounting, as with New Zealand society generally. Furthermore, New Zealand shares these origins with its neighbour, Australia, explaining the strong connection between the two countries and confirming the findings of Chua and Poullaos and Carnegie and Parker in their studies on the importance of the Imperial

³⁰ Hickey (2009).

link in accounting and in standard setting.³¹ Studies such as this thesis add to this literature in providing information about the effects of British standard setting on its former colonies, as well as providing a case study of standard setting ‘the British way,’ allowing future research comparing and contrasting standard setting among former British colonies and with the British history of standard setting.³²

Standard setting has always had an international dimension and, as this history shows, English speaking countries have developed their accounting standards while being well aware of what was happening elsewhere.³³ The New Zealand Institute may have modelled its standards on corresponding British standards, but it did not do so exclusively, adapting standards issued in the United States, Australia and elsewhere.³⁴ The Institute used overseas standards because they were effective and served their purpose, but cost was also a factor. It was cheaper to adapt a ready made standard than draft one from first principles although some standards, such as SSAP-17, were drafted here showing that the Institute was prepared to develop standards on issues particular to New Zealand financial reporting.³⁵

The New Zealand case study showed that in recent decades there have been two significant changes in New Zealand standard setting as a consequence of international influences, which, this thesis argues, signal a new stage in the nature of standard setting. First, New Zealand standards and the standard setting process became increasingly harmonised with Australian standard setting. Second, New Zealand made increasing use of international standards, that is, standards produced by international accounting organisations, like the IASB. Cooperation between the Institute’s standard setting boards and Australian boards has reached the stage where the boards in both countries have Australian and New Zealand members. As Simpkins noted, the New Zealand and Australian standard setting systems were now more alike than unlike.³⁶ Harmonising New Zealand and Australian standards was in part responsible for and at the same time a result of New Zealand standard setting becoming more international. In 2005, New Zealand decided to adopt international accounting standards, at the same time as Australia.

³¹ Chua and Poullaos (1998 and 2002); Carnegie and Parker (1999).

³² Annisette (1999).

³³ Edwards (1989).

³⁴ Cliffe *et al.* (1984).

³⁵ Bradbury (2003).

³⁶ Simpkins (2009).

This decision was a significant step in completing the answer to the research question, how the Institute carries out its role as standard setter, for the Institute will cease to be a standard setter. Furthermore, this thesis argues that this move indicates a major change in standard setting as a professional activity for one consequence of standard setting being carried out at the international level is that the nature of standard setting at the national level will alter. National accounting organisations like the Institute will be less immediately involved in the standard setting process and the urgency and responsibility for them to respond to local events will diminish. In New Zealand this appears to indicate a changing focus in the New Zealand profession's use of standard setting as a means of professionalisation, for the Institute will no longer control standard setting. The evidence in this thesis does show this change in emphasis, for the Institute has supported the move to international standards, helped in part because the IASC was producing better international standards for the private sector and IPSASB for the public sector. This change in focus suggests that the profession's interest in areas where accounting standards will be used in the future, namely among larger private sector entities, reflects the global outlook of those entities. The decision was also possible because, as the New Zealand history showed, the standard setting process in most countries now involved statutory bodies authorising standards so the profession was already less directly involved in standard setting at the national level.

But the evidence also shows that while the Institute will no longer draft standards, in reality the New Zealand accounting profession has not abandoned standard setting. The profession has simply moved where it drafts accounting standards, for international accounting standards are developed by international standard setting bodies which the accounting profession controls and to which national associations, such as the New Zealand Institute, contribute, with personnel and money.³⁷ The Institute's participation in international standard setting has lowered costs for members but not eliminated them

National associations still have a role in standard setting. They will continue to act on behalf of members in implementing international accounting standards but the monitoring of international standards to ensure these comply with their national legislation and conditions will be carried out by statutory bodies, albeit with

³⁷ Zeff (2010); Scott (2011); Hickey (2009).

professional accountants on those boards. One conclusion that may be drawn from this continued involvement of associations like the Institute is that the benefits to the profession as standard setter continue to outweigh the costs. However, this appears to be at the international not the national level. This thesis argues that standard setting will no longer be as significant a factor as it was in the public's perception of the profession, with implications for the future use of standard setting as a professional activity and means of maintaining professional reputation at the national level.

Profession-state relations

The evidence in this thesis shows an inverse relationship between the profession and the state in the history of standard setting. As the state shifted from an indirect to direct role in standard setting the accounting profession has moved the other way from a direct to an indirect role. This relationship between the profession and state is a consequence of why standard setting arose and how the profession went about its task as standard setter. The changing roles of the profession and state lead back to van Zijl's quote on page one of this thesis.

...One could argue that the job is really for a government body in the sense that [while] there are obvious payoffs to the profession, promoting the standing of the profession, there are also benefits [of the standards] that go well beyond the profession and one could therefore argue that, just as with education, there is a role for government.³⁸

The New Zealand case study shows that it was not only benefits that brought the state into standard setting but also costs, financial and social. Until the 1970s and 1980s the accounting profession in New Zealand, as in the United Kingdom and Australia, developed standards within the framework of legislation such as Companies Acts. The state played an indirect role in standard setting as legislation gave the profession the direction in which to develop standards. These standards however did not have the force of law and the associations were only able to compel members to follow them. At frequent intervals the accounting profession came under scrutiny by entities, governments and related statutory monitoring bodies when user needs were not being met. This was especially so during times of economic crises, in New Zealand and elsewhere, such as the inflationary economic period in the 1970s and the share market collapse in 1987. These pressures became stronger as society changed and became

³⁸ T. van Zijl interview 16 July 2009.

more regulatory.³⁹ Interest groups, aided by a more critical media, challenged the authority of the accounting profession to produce effective accounting standards and the profession had difficulty responding. As Velayutham and Perera pointed out this was in part because the profession was experiencing internal debate as to whether it should be setting accounting standards and whether it was doing so in the public interest or for self interest.⁴⁰

In New Zealand, as in the United Kingdom and Australia, there were a number of government enquiries on the financial reporting regime that led to increasing state intervention in the standard setting process.⁴¹ Statutory bodies such as New Zealand's ASRB, now authorised the standards. In New Zealand the Institute retained dominance of the standard setting process, with the FRSB the only drafter of standards and the majority of members of the ASRB being Institute members.⁴² Following further New Zealand Government enquiries into the financial reporting regime during the first years of this century the New Zealand standard setting process changed again. From 2011 a new External Reporting Board will develop and authorise New Zealand's accounting standards. Even though this board will rely on professional accountants the Institute's role as standard setter will cease for it will no longer have responsibility for standard setting.

As with the move to using international accounting standards, these changes in the profession-state relationship have significant implications for the future of standard setting as a professional activity of the accounting profession in New Zealand for the External Reporting Board will be the standard setter, drafting and authorising the standards. This is more than the ASRB, which only authorised standards. Velayutham and Perera investigated the establishment of the ASRB as a possible example of accounting deprofessionalising. Is it possible then that creating the External Reporting Board is an example of deprofessionalisation? In their study of the creation of the ASRB, Velayutham and Perera argued that professionalisation was determined by who controlled the activity. The Institute ceasing to be a standard setter removes control from the profession. Indeed, the Institute's move away from standard setting suggests that this will no longer be a professional activity of the accounting profession, implying that standard setting will not be a factor determining the

³⁹ Baldwin *et al.* (2010), p6.

⁴⁰ Velayutham and Perera (1995).

⁴¹ Robson (1994).

⁴² Keenan (2000).

profession's public reputation. Nor will standard setting be a means of professionalisation. The evidence in this case study suggests that at the national level this may be so.

Sector Neutral Standards: an episode in profession-state relations

There was one significant exception in the Institute's history of standard setting in comparison to that of the United Kingdom and, for some years Australia; the period from 1993 when New Zealand standards were sector neutral. This event deserves special mention because it is rare in the world history of standard setting and because it gives further insight into the relationship between the New Zealand Institute and the New Zealand Government. The conditions that enabled the New Zealand Institute to develop sector neutral accounting standards were largely outside the profession but particular to the New Zealand economy, and the actions of particular individuals were critical to the success of the venture.

Sector neutral standards were a consequence of the neo-liberal economic policies of New Zealand governments during the 1980s and 1990s. These policies demanded that public sector entities adopt accrual accounting and follow New Zealand GAAP in their financial reporting. The Institute's cooperation was also essential to the creation of sector neutral standards for the Institute drafted the standards. Critical to the successful drafting of sector neutral standards were individuals on the ARSB who had been on the Institute's public sector committee and who were also in the New Zealand Treasury implementing the government reforms.⁴³ Lye *et al.* observed that it appeared that the government used the Institute to help implement its reforms in the public sector.⁴⁴ The evidence in this case study shows that the reverse also applied as the ARSB was well advanced in producing public sector standards before the Financial Reporting Act 1993 and open to the concept of sector neutral standards.

This case study showed that sector neutral standards were more robust as a result of the wider consultation required and the need to draft standards that were effective in more than one economic sector. Yet no other country adopted sector neutral standards except Australia and that country only briefly at the beginning of this century. This may be a consequence of the unwillingness of governments elsewhere to adopt accrual accounting methods rather than any reluctance on the part

⁴³ Boston *et al.* (1996); Goldfinch (2000).

⁴⁴ Lye *et al.* (2005).

of the accounting profession to have sector neutral standards. It seems that alignment of private sector and public sector financial reporting is required and this has not happened except in New Zealand and Australia.

But this alignment has proven inadequate to sustain sector neutral standards in either New Zealand or Australia. Boston *et al.* noted that the outcomes focus and managerial emphasis of the public sector reforms in the 1980s led to public sector dissatisfaction with several aspects of the new reform policies, including what was expected in financial reporting.⁴⁵ This dissatisfaction was exacerbated with the 2002 decision to adopt international standards. The political opportunity structure had also altered in New Zealand; the government had a different focus, the New Zealand public was less tolerant of the liberal economic policies of the 1980s and the Treasury now had other priorities. Consequently, sector neutrality is about to be abandoned.

The Institute's motives for drafting sector neutral standards, as with other episodes in its role as standard setter, may be attributed to both the public interest and self interest. A more accountable public sector was in the public interest but there was a self interest motive because sector neutral standards enhanced the Institute's reputation for innovative and responsible professional behaviour. As is evident from the findings of this study, and confirming the assumptions of West and other researchers, standard setting was a professional activity carried out by the New Zealand Institute.⁴⁶ In addition, using the Institute as a case study, this thesis has answered the research questions, why and how the profession became a standard setter. But can standard setting be considered a professional project and part of the professionalisation of accounting?

Applying the theoretical framework

This section examines the thesis findings to test the hypothesis and see if the New Zealand history provides a case study of standard setting as a professional project. To assess the hypothesis the findings of this study are compared to the four characteristics of a professional project, as proposed by Larson and expanded by Macdonald- collective activity of groups, acquisition of power from knowledge, ongoing action to maintain monopoly and interaction between the accounting profession and the state.

⁴⁵ Boston *et al.* (1991 and 1996).

⁴⁶ West (1996); Velayutham and Perera (1995).

The literature shows that accounting is a profession. Lee noted that since its beginnings in the nineteenth century the accounting profession has deliberately and consistently acted to acquire and maintain professional status and Macdonald demonstrated that the accounting profession has undertaken professional projects.⁴⁷ Applying Larson's model of professional behaviour to the evidence, this thesis argues that standard setting, as carried out by the New Zealand Institute, may also be considered a professional project. The evidence in this thesis is clear that from 1946 until 1993 standard setting in New Zealand was the result of collective activity by one group, the New Zealand Institute and from 1993 until now the Institute was the drafter of standards with the ASRB authorising them. As an accounting professional association, the New Zealand Institute acted on behalf of members in setting accounting standards and the actual standard setting boards were established by the New Zealand Institute and composed entirely of New Zealand Institute members. Moreover, when the New Zealand Government created the ASRB with the passing of the Financial Reporting Act 1993, the majority of ASRB members were New Zealand Institute members.

Acquisition of power from knowledge is illustrated in a number of episodes in the history of standard setting in New Zealand. Power from knowledge may be considered as control or dominance of the nature of the standards as well as the standard setting process. This is evident in the New Zealand Institute's actions to make accounting standards more regulatory and to incorporate financial accounting theory, such as the Institute's 1993 release of the conceptual framework for accounting standards. The thesis shows that these actions by the New Zealand Institute reflected similar actions by the profession overseas, as illustrated by West and Hines in their studies.⁴⁸ Their conclusions are supported by the evidence of the Institute's actions in this case study. Furthermore, as Potter, among others, has shown and the New Zealand framework confirms, the accounting profession has shown this control of the specialist knowledge in accounting standards in part through the level of language used.⁴⁹

Acquisition of power from knowledge extended to the profession's control of the standard setting process, for in this way the profession maintained its authority

⁴⁷ Macdonald (1995); Lee (1995).

⁴⁸ West (1996); Hines (1989).

⁴⁹ Potter (1999).

and right to be a standard setter by ensuring the credibility of the standards. This thesis showed that the Institute kept control of standard setting by responding to pressure from within and outside the Institute to improve the effectiveness of standards. The Institute's dominance was evident in its initiating reviews of the standard setting process and determining the extent of consultation with interested groups. In these actions the Institute was doing what it did with other means of ensuring professional reputation, as researchers of the profession elsewhere have shown.⁵⁰ Even the Institute's development of sector neutral accounting standards may be interpreted as an example of the profession's ability to control the standard setting process.

The profession, however, did experience challenges to its role as standard setter from within and outside. As is evident in this thesis, not all members of the profession agreed that standard setting was a professional activity. The findings in this thesis also show that the Institute was not always successful in the standards it drafted, as evidenced by SSAP-17. Researchers such as West, Hines and Lee have commented on the difficulty the accounting profession generally had in defining financial accounting theory to give a credible base to the standards. It may be argued that while standard setting was an accounting service offered by the profession these issues imply it was not a means of professionalisation. This thesis concludes however that these difficulties do not stop standard setting being considered a professional project. Richardson pointed out that the same problems occurred with the social closure techniques discussed by Lee, and which Macdonald concluded were still professional projects.⁵¹ Furthermore, as this study shows, the public's perception of the profession was determined in part by the reliability of entity financial reporting and hence the profession's reputation was linked to its role as standard setter.

Maximising professional reputation helps explain the international dimension of standard setting. Making use of standards created overseas added credibility to the New Zealand standards and showed that the Institute was ensuring that the New Zealand standards were up-to-date. Even the move to adopting IFRS as New Zealand standards may be seen as the Institute changing focus in standard setting rather than an abdication of its responsibility for standard setting. This thesis argues that the decision to adopt IFRS not only shows the extent of the Institute's dominance of

⁵⁰ Lee (2000 and 2004).

⁵¹ Richardson (1997).

standard setting but also the changing nature of the profession's relationship with the state.

As the evidence in this thesis demonstrates, until the 1980s the New Zealand Government played an indirect role in standard setting. It may be argued that increasing state intervention since that time shows the Institute losing control of standard setting. The reality, as this study shows, was that the Institute maintained control through majority membership of the ASRB and an ongoing close relationship with the ASRB. The Institute supported the creation of the ASRB for this statutory body made standards mandatory, giving the standards authority and increasing the profession's reputation.

Thus the findings of this study show that the Institute's actions as standard setter conform to the characteristics of Larson's model of professional behaviour, supporting the argument that standard setting is a professional activity and may be considered a professional project. Although, as the findings in this study show, some evidence may be interpreted as indicating that standard setting was not a means of professionalisation, this thesis argues that the evidence tends more towards confirming that it was. This conclusion is further supported when the study's findings are compared with Larson's observation that professional projects were new practices that increased the level of professionalisation.⁵²

Standard setting was a new practice when compared to other professionalisation activities. Standards were a twentieth century invention. Accounting became a profession in the nineteenth century. So standard setting could not be an early means of accounting acquiring professional status. Lee and Walker, among other researchers, have shown how the profession used other methods to achieve professional status.⁵³ Indeed, early in the twentieth century the profession saw regulating external financial reports as a state rather than a professional responsibility. The debate within the New Zealand Institute on whether there was a need for standardising external financial reports or even research in this area shows that many in the profession were not keen even to give entities guidance on the contents of external financial reports. In part this was because regulation of financial reporting already existed with governments in the English-speaking world legislating for the

⁵² Larson (1977), p.6.

⁵³ Lee (2004); Walker (2004); Noguchi and Edwards (2004); Macdonald and Richardson (2004); Carnegie and Edwards (2001); Zeff (2003).

information required in external financial reports, and also because many in the accounting profession did not see a need for their involvement in such regulation.

Evidence that standard setting increased the accounting profession's level of professionalisation is seen in the profession's relationships with other groups in society, such as the state and the business community. When the profession became a standard setter it did so with the approval and authorisation of the state. The business community accepted accounting standards and even when there were compliance issues entities were using most accounting standards. These groups recognised the profession was responding to public demand for regulation of external financial reporting. Standard setting gave the accounting profession another means of raising its professional reputation, seen in the Institute continuing to set accounting standards, even though standard setting was not an easy task and financially costly.

The evidence in this study verifies the hypothesis. But accounting's professional image is not solely dependent on standard setting. This thesis does not argue that standard setting was an essential or only element in the professionalisation process. Rather, this thesis argues, the evidence of the New Zealand Institute's actions as standard setter show that the accounting profession took the opportunity to use standard setting to enhance professional standing after it began setting accounting standards. Standard setting is but one professional activity. When researchers such as Walker and West discussed professionalisation methods they did not offer a definitive list, for the opportunities to use accounting services as professional activities will vary with time and circumstances.⁵⁴ This is evident even in standard setting itself with the profession's recent shift to an international focus. Furthermore, the profession coming to use standard setting as a professional project after using other means and the changes in the nature of standard setting also imply that the nature of professionalisation may alter over time.

This thesis detailed the evidence of why and how the New Zealand Institute was a standard setter, thus answering the original research questions and in the process showing that these findings were consistent with Larson's model of professional behaviour, confirming the hypothesis that standard setting is one example of a professional project. The similarity of New Zealand's history of standard setting with that in the United Kingdom and Australia: the changing nature

⁵⁴ Walker (1991 and 1995); West (1996).

of standard setting and the standard setting process, the strong international dimension of standard setting and the relationship of the profession with the state, not only show why and how the New Zealand Institute was a standard setter but make the New Zealand history a suitable case study for the accounting profession generally.

Future research

The changing relationship between the development of standards and the professionalisation of accounting, as identified in this thesis, raises several topics for further research. This thesis argues that the evidence of the New Zealand Institute's actions in recent years shows that changes in the standard setting process have not altered the likelihood of standard setting continuing to be a professional activity and a means of professionalisation. At a national level, standard setting no longer conforms as strongly to Larson's description of a professional project, for the Institute will cease to be a standard setter. However, the Institute will continue to contribute to standard setting as part of accounting's international professional profile. That the profession, with this change, has not suffered a diminution of its professional status at national level, as seen in the New Zealand case study, suggests that the profession's international focus represents a new stage in the maintenance of its professional reputation with possible implications for the profession and its place in society. Research is needed to explore the impact of international accounting standards in national financial reporting regimes. Evans, for example, has shown there should be careful consideration of the language in international accounting standards and the consequences of interpreting these standards.⁵⁵

In the wider context of professionalisation, research is needed to explore its meaning, its nature and its features. This case study, exploring the history of one professional activity, found that the nature of accounting standards and the standard setting process changed significantly in recent years, indicating a new stage in the history of standard setting and suggesting that the nature of professionalisation changes over time. These changes in standard setting may be one example of a wider change in focus for professions as occupations alter with new technologies and shifts in social and economic structures.⁵⁶ The findings of an historical study such as this thesis may therefore contribute to the discussion on professionalisation by providing

⁵⁵ Evans (2010).

⁵⁶ Leicht and Fennell (2001).

an analysis of a professional activity over a period of time. The originality of this thesis lies in the implications of the findings to the concept of professionalisation, providing practical and theoretical considerations for accounting as a profession and professions in general.

Today, issues such as the uncertain effects of globalisation of capital and financial markets, multinational entities and the development of the accounting profession as an international occupation have broadened the significance of standard setting, giving weight to the usefulness of a study such as this with its emphasis on the role of the professional association and the implications of future roles for national associations. The development of public sector standards and the increasing need for global standards on environmental accounting warrant further investigation, not only into the standards themselves but also into the role of the accounting profession and accounting associations in developing those standards for the public benefit. This may be seen when considering the possible direction of the future involvement of the New Zealand accounting profession in standard setting. Simpkins observed that ‘if small companies don’t have to comply with any standards then it’s a space the Institute could quite validly occupy’ as the profession provided accounting services to those entities.⁵⁷ Doing so would keep the profession within the local community, serving its needs and maintaining a professional profile at this level, which is ‘the heart of the discipline of accounting.’⁵⁸ While there is demand for quality accounting services and those supplying the services fulfil that demand in a trustworthy and ethical manner, the professional accountant remains relevant and there will be an incentive for accountants to assume such tasks as the drafting of accounting standards.

⁵⁷ Simpkins (2009).

⁵⁸ Simpkins (2009).

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Appendix A: Initial Registration of Members in the NZSA

Extracts from New Zealand Society of Accountants Act 1908

(Source: NZSA *Yearbook* 1909-1911)

Section 7

The following classes of persons shall be entitled to be registered by the Board as members of the Society:

- (a) Every person who has, whether before or after the passing of this Act, passed an examination entitling him to be elected or admitted as a fellow or associate of the Incorporated Institute of Accountants in New Zealand, or of the New Zealand Accountants' and Auditors' Association:
- (b) Every person who, whether before or after the passing of this Act, has been admitted as a member, fellow or associate of any association of accountants which is incorporated in any part of the British Empire out of New Zealand, and which is recognised by the Board as of adequate standing and repute in this behalf:
- (c) Every person who at any time before the passing of this Act has for a period of three years been continuously engaged in business in New Zealand on his own account, whether solely or in partnership with any other person, as an accountant, and whether exclusively so engaged or not, and who satisfies the Board as to his proficiency in the duties of an accountant:
- (d) Every person who at any time before the passing of this Act has for a period of three years been continuously, or with no greater interval than three months at any one time, employed in New Zealand in the service of any one or more employers in any position in which his sole or chief duties have been those of an accountant, and who satisfies the Board as to his proficiency in the duties of an accountant:
- (e) Every person who at any time before the passing of this Act has during a period of three years been engaged for part of that period in a manner described in paragraph (c) of this section, and for the remaining part thereof in a manner described in paragraph (d) of this section, and who satisfies the Board as to his proficiency in the duties of an accountant.

Section 8

[To be eligible, applicants also needed to be...]

... more than 21 years ... [and of] good character and reputation ...

The Board referred to in Section 7 is the Registration Board whose members were the Controller and Auditor General, the Commissioner of Taxes, the Government Insurance Commissioner, the Secretary of the Treasury and the Solicitor General.

Appendix B: Designations of Accountants in the NZSA/ICANZ

The designations of accountants and the name of the main professional body has changed over the years. The following summarises those changes.

1908-1968 Name: New Zealand Society of Accountants
 Abbreviation: NZSA

Designation of members:
 Public Accountants
 Registered Accountants

1968-1996 Name: New Zealand Society of Accountants
 Abbreviation: NZSA

Designation of members:
 Chartered Accountants
 Associate Chartered Accountants

1996 - Name: Institute of Chartered Accountants of New Zealand
 Abbreviation: ICANZ

(Membership was divided into three colleges and the designations of members indicated the college to which the particular member belonged)

Designation of members:
 Chartered Accountant
 Associate Chartered Accountant
 Accounting Technician

Note: Since 2005, the trading name of ICANZ has been NZICA (New Zealand Institute of Chartered Accountants)

Appendix C: Classes and Degrees of Membership of the NZSA

Extracts from the Regulations of the New Zealand of Accountants

(Source: NZSA *Yearbook* 1909-11)

54 The members of the Society shall be divided into two classes –

- (a) Public Accountants – being those members who prove to the satisfaction of the Council that they are in accordance with the Regulations of the Society carrying on business as practising accountants on their own account either solely or in practice with another person or persons.
- (b) Registered Accountants – being all members not eligible for classification as Public Accountants in terms of the last preceding Sub-section. Provided that a Registered Accountant shall be entitled to become a Public Accountant at any future time upon payment of the prescribed fees, and upon compliance with the provisions of Sub-clause (a).

55 There shall be two degrees of members, viz., Fellows and Associates.

- (a) Fellows – being members who are at least 30 years of age, and who prove to the satisfaction of the Council that they have practised as Public Accountants for a period of not less than 5 years, or that their qualifications as Accountants in responsible positions warrant such degree being conferred upon them; and
- (b) Associates – being all members not eligible for classification as Fellows in terms of the last preceding Sub-section.

Appendix D: Membership Requirement for the Three Colleges of ICANZ

Extracts from the 1997 Members' Handbook

College of Chartered Accountants

- (a) Four years' approved tertiary study.
- (b) One year's general practical experience with or without supervision by a mentor.
- (c) Two years' specified practical experience with supervision by a mentor in an Approved Training Organisation.
- (d) A pass in the Professional Competence Examination I (PCEI).
- (e) Attendance at a Professional Accounting School
- (f) A pass in the Professional Competence Examination II (PCEII).

College of Associated Chartered Accountants

- (a) Four years' approved tertiary study.
- (b) One year's general practical experience with or without supervision by a mentor.
- (c) Two years' specified practical experience with supervision by a mentor.
- (d) A pass in the Professional Competence Examination I (PCEI).

College of Accounting Technicians

- (a) Two years' approved study.
- (b) One year's general practical experience with or without supervision of a mentor.
- (c) One year's specified practical experience with supervision by a mentor.
- (d) A pass in the Professional Competence Examination I (PCEI).

Appendix E: Presidents of the New Zealand Institute of Chartered Accountants

Source: Annual Reports (Wellington, ICANZ 1911-2011) and The Accountants' Journal/Chartered Accountants' Journal 1923-2011

1908	P. Barr	1953	D.A.F. Crombie
1909	P. Barr	1954	W.G. Watts
1910	P. Barr	1955	I.T. Cook
1911	P. Barr	1956	A.W. Christmas
1912	P. Barr	1957	R.G. Compton
1913	A.T. Clarke	1958	G.H.V. Bindon
1914	J. Brown	1959	R.G. Stark
1915	J.S. Barton	1960	J.H. Pickles
1916	J.S. Barton	1961	N.B. Fippard
1917	H.C. Tewsley	1962	D.S. Cox
1918	W. McCulloch	1963	A.A.Q. Solomon
1919	W.E. Best	1964	T.G. Hull
1920	W. Green	1965	H.G. West
1921	G.W. Hutchison	1966	B.F. Anderson
1922	J. Morrison	1967	J.A. Valentine
1923	C.M. Bowden	1968	H.G.F. Callam
1924	W.E. Best	1969	P.J.I. Olliver
1925	R. Davis	1970	R.W. Steele
1926	A.M. Seaman	1971	M.D. Gillick
1927	E.W. Hunt	1972	L.N. Ross
1928	J. Hogg	1973	E.A. Craig
1929	J.L. Griffin	1974	I.G. Lythgoe
1930	W.D. Revell	1975	I.S. Beattie
1931	J.M. Elliffe	1976	A.W. Mann
1932	W.A. Smith	1977	R.W. Glasgow
1933	G.W. Reid	1978	L.A. Fleury
1934	H. Valentine	1979	G.C. Edgar
1935	P.B. Foote	1980	R.C. Pope
1936	C.H. Wynyard	1981	B.A. Christmas
1937	J.M. Stewart	1982	P.C. Gray
1938	M.S. Spence	1983	P.M. McCaw
1939	W.R. Brown	1984	R.A. Anderson
1940	W.H. Nankervis	1985	G.M. Lloyd
1941	R. English	1986	J.M. Ott
1942	E.D. Wilkinson	1987	R.W. Eglinton
1943	W.B. Griffin	1988	A.N. Frankham
1944	F.H. Bass	1989	J.T. Chapman
1945	D.H. Steen	1990	P.L. Hays
1946	C.H. Perkins	1991	A.R. Burn
1947	C.A. Smith	1992	W.G. Cox
1948	F.H. Harris	1993	J.C. Hagen
1949	R.D. Brown	1994	R.J.O. Hoare
1950	C.C. Holland	1995	C. Notley
1951	H.E. Strickett	1996	W. Allen
1952	L.M. Satterthwaite	1997	T. Fairhall

1998 K. Smith
1999 S. Sheldon
2000 O. Williams
2001/2 R. Marshall*
2003 P. Waite
2004 J. Schofield
2005 R. Tiffin
2006 K. Wedlock
2007 D. Bouvaid
2008 G. Crombie
2009 L. Turner
2010 D. Harry

R. Marshall was President for 1 1/2 years. Since 2003, Presidential terms are calendar years. Prior to 2003 they were mid-year to mid-year.

Appendix F: Members of the Accounting Practice and Procedure Committee

Source: *Annual Reports* (Wellington, NZSA, 1950-1960) and *The Accountants' Journal* 1950-1960

(The President and Vice-President were ex officio members of the Committee. Council members are in italics. The first name each year is the Chairperson.)

- 1950 *H.E. Strickett* (Convenor), *A.E.J. Anderson*, *W.R. Chapman*, *R.G. Compton*, *D.A..F Crombie*,
N.B. Fippard, F.H. Harris, C.H. Perkins, W.G. Rodger, D.H. Steen, E.D. Wilkinson
- 1951 *W.R. Chapman*, *A.E.J. Anderson*, *J. Haisman*, *C.B. Hodgson*, *H.E. Strickett*,
N.B. Fippard, F.H. Harris, C.H. Perkins, W.G. Rodger, D.H. Steen, E.D. Wilkinson
- 1952 *H.E. Strickett*, *G.H.V Bindon*, *D.S. Cox*, *C.B. Hodgson*, *R.M. Kay*, *J.H. Pickles*,
G.B. Battersby, R.A. Davison, J. Haisman, W.G. Rodger, E.D. Wilkinson
- 1953 *H.E. Strickett*, *G.H.V. Bindon*, *D.S. Cox*, *C.B. Hodgson*, *R.M. Kay*, *J.H. Pickles*,
J. Haisman, G.B. Battersby, R.A. Davison, W.G. Rodger, E.D. Wilkinson
- 1954 *H.E. Strickett*, *D.S. Cox*, *J.H. Pickles*, *R.T. Sewell*, *G.B. Battersby*, *H.G.F. Callam*,
R.A. Davidson, W.G. Rodger, E.D. Wilkinson
- 1955 *H.E. Strickett*, *D.S. Cox*, *J.H. Pickles*, *A.A.Q. Solomon*, J. Haisman, G.B. Battersby,
H.G.F. Callam, R.A. Davison, W.S. Gilkison, W.G. Rodger
- 1956 *H.E. Strickett*, *T.G. Hull*, *A.A.Q. Solomon*, *R.G. Stark*, G.B. Battersby, H.G.F. Callam,
R.A. Davison, W.S. Gilkison, J. Haisman, W.G. Rodger
- 1957 *H.E. Strickett*, *T.G. Hull*, *A.A.Q. Solomon*, W.L. Birnie, H.G.F. Callam, R.A. Davison,
W.S. Gilkison, J. Haisman, C.H. Perkins, W.G. Rodger, E.D. Wilkinson
A.W. Graham (Secretary)
- 1958 *H.E. Strickett*, *G.J. Broker*, *A.A.Q. Solomon*, W.L. Birnie, H.G.F. Callam, R.A. Davison,
W.S. Gilkison, A.W. Graham, C.H. Perkins, W.G. Rodger, E.D. Wilkinson
D.C. Jamieson (Secretary)
- 1959 R.G. Compton, *G.J. Broker*, *A.A.Q. Solomon*, W.L. Birnie, H.G.F. Callam, R.A. Davison,
W.S. Gilkison, A.W. Graham, C.H. Perkins, W.G. Rodger, R.W. Steele, E.D. Wilkinson

1960 H.G.F. Callum, W.L. Birnie, G.J. Broker, R.A. Davidson, W.S. Gilkison,
 A.W. Graham, C.H. Perkins, W.G. Rodger, A.A.Q. Solomon, R.W. Steele,
 H.E. Strickett, E.D. Wilkinson

Members of APPC by District and Type of Membership

<u>Name</u>	<u>District</u>	<u>Membership</u>
A.E.J. Anderson	Wellington	Associate, Public Accountant
G.B. Battersby	Christchurch	Associate, Public Accountant
G.H.V. Bindon	Hamilton	Fellow, Public Accountant
W.L. Birnie	Wellington	Registered Accountant
H.G.F. Callam	Auckland	Fellow, Public Accountant
W.R. Chapman	Dunedin	Fellow, Public Accountant
R.G. Compton	Christchurch	Fellow, Public Accountant
D.S. Cox	Auckland	Fellow, Public Accountant
D.A.F. Crombie	Wellington	Fellow, Public Accountant
R.A. Davison	Wellington	Fellow, Public Accountant
N.B. Fippard	Hawkes Bay	Fellow, Public Accountant
W.S. Gilkison	Dunedin	Fellow, Public Accountant
J. Haisman	Gisborne	Fellow, Public Accountant
F.H. Harris	Wellington	Fellow, Public Accountant
C.B. Hodgson	Nelson	Fellow, Public Accountant
T.G. Hull	Wellington	Fellow, Public Accountant
R.M. Kay	Auckland	Fellow, Registered Accountant
C.H. Perkins	Christchurch	Fellow, Public Accountant
J.H. Pickles	Christchurch	Fellow, Public Accountant
W.G. Rodger	Wellington	Fellow, Public Accountant
A.A.Q. Solomon	Timaru	Fellow, Public Accountant
R.G. Stark	Invercargill	Fellow, Public Accountant
R.W. Steele	Wellington	Fellow, Public Accountant
D.H. Steen	Auckland	Fellow, Public Accountant
H.E. Strickett	Auckland	Fellow, Public Accountant
E.D. Wilkinson	Auckland	Fellow, Public Accountant

Appendix G: Members of the Board of Research and Publications

Source: *Annual Reports* (Wellington, NZSA 1961-1979) and *The Accountants' Journal* 1961-1979

- 1961 A.W. Graham, A.S. Carrington, H.G.F. Callam, T.K. Cowan, W.S. Gilkison, L.W. Logan, T.R. Johnston, F.V. Noble-Beasley, W.G. Rodger, R. Sidebotham, R.W. Steele, J.A. Stone, H.E. Strickett. Ex officio D.S. Cox, A.A.Q. Solomon.
- 1962 A.W. Graham, A.S. Carrington, T.K. Cowan, H.F. Foster, W.S. Gilkison, T.R. Johnston, F.V. Noble-Beasley, W.G. Rodger, R. Sidebotham, R.W. Steele, J.A. Stone.
- 1963 A.W. Graham, R.W. Steele, A.S. Carrington, T.K. Cowan, A.E. Davis, W.S. Gilkison, T.R. Johnston, F.V. Noble-Beasley, W.G. Rodger, R. Sidebotham, J.A. Stone.
- 1964 A.W. Graham, R.W. Steele, A.S. Carrington, T.K. Cowan, A.E. Davis, W.S. Gilkison, T.R. Johnston, F.V. Noble-Beasley, L.N. Ross, W.G. Rodger, R. Sidebotham, E. Stamp, J.A. Stone.
- 1965 A.W. Graham, A.S. Carrington, T.K. Cowan, A.E. Davis, W.S. Gilkison, T.R. Johnston, F.V. Noble-Beasley, L.N. Ross, W.G. Rodger, R. Sidebotham, E. Stamp, J.A. Stone.
- 1966 A.W. Graham, A.S. Carrington, T.K. Cowan, W.S. Gilkison, T.R. Johnston, J.M. Robertson, L.N. Ross, M.K. Twomey, R. Sidebotham, E. Stamp, J.A. Stone.
- 1967 A.W. Graham, A.S. Carrington, T.K. Cowan, W.S. Gilkison, M.D. Gillick, T.R. Johnston, W.H. Morgan, J.M. Robertson, D.G. Trow, M.K. Twomey, R. Sidebotham, J.A. Stone, L.R. Willis.
- 1968 W.H. Morgan, T.K. Cowan, F. Devonport, W.S. Gilkison, M.D. Gillick, R.W. Glasgow, T.R. Johnston, J.M. Robertson, R. Sidebotham, J.A. Stone, D.G. Trow, M.K. Twomey, L.R. Willis.
- 1969 W.H. Morgan, T.K. Cowan, F. Devonport, R.W. Glasgow, T.R. Johnston, F.V. Noble-Beasley, J.M. Robertson, R. Sidebotham, D.G. Trow, M.K. Twomey.
- 1970 W.H. Morgan, H.D.W. Barton, T.K. Cowan, F. Devonport, R.W. Glasgow, T.R. Johnston, F.V. Noble-Beasley, J.M. Robertson, D.G. Trow, M.K. Twomey, J.A. Valentine.
- 1971 W.H. Morgan, T.K. Cowan, F. Devonport, R.W. Glasgow, T.R. Johnston, F.V. Noble-Beasley, R.C. Pope, M.D. Purdie, G.J. Schmitt, H.M. Titter, D.G. Trow, J.A. Valentine.

- 1972 W.H. Morgan, T.K. Cowan, F. Devonport, R.W. Glasgow, T.R. Johnston, F.V. Noble-Beasley, R.C. Pope, M.D. Purdie, G.J. Schmitt, H.M. Titter, D.G. Trow, J.A. Valentine.
- 1973 W.H. Morgan, T.K. Cowan, F. Devonport, R.W. Glasgow, T.R. Johnston, F.V. Noble-Beasley, R.C. Pope, M.D. Purdie, G.J. Schmitt, H.M. Titter, D.G. Trow, J.A. Valentine.
- 1974 W.H. Morgan, T.K. Cowan, F. Devonport, A.G.H. Gilligan (nominated by the Cost and Management of Accounting Division), R.W. Glasgow, T.R. Johnston, F.V. Noble-Beasley, R.C. Pope, G.J. Schmitt, H.M. Titter, D.G. Trow, J.A. Valentine.
- 1975 R.C. Pope, T.K. Cowan, F. Devonport, J.M. Freeman, R.W. Glasgow, P.L. Hays, T.R. Johnston, F.V. Noble-Beasley, G.J. Schmitt, H.M. Titter, D.G. Trow, J.A. Valentine.
- 1976 R.C. Pope, T.K. Cowan, F. Devonport, J.M. Freeman, R.W. Glasgow, P.L. Hays, T.R. Johnston, F.V. Noble-Beasley, G.J. Schmitt, G.M. Minnis, D.G. Trow, J.A. Valentine.
- 1977 R.C. Pope, R.A. Anderson, T.K. Cowan, F. Devonport, J.M. Freeman, P.L. Hays, T.R. Johnston, G.M. Minnis, G.J. Schmitt, D.G. Trow, J.A. Valentine, W. Wilson.
- 1978 R.C. Pope, R.A. Anderson, T.K. Cowan, F. Devonport, R.W. Glasgow, G.W. Green, P.L. Hays, T.R. Johnston, G.M. Minnis, G.J. Schmitt, D.G. Trow, J.A. Valentine.

Because the subcommittees and project teams were not official committees of the Society their members are listed infrequently. However, *The Accountants' Journal* listed the subcommittees in 1972 and 1979, as follows:

1972

Auditing: D.G. Trow, W.S. Gilkison, P.L. Hays, P.M. McCaw, K.J. Jensen

Financial Accounting: F.V. Noble-Beasley, K.J. Jensen, T.R. Johnston, M.K Twomey “and another Wellington member to be appointed by Sub-committee after approval by Chairman of the Board.”¹

Management Accounting: W.H. Dawson, M.D. Purdie, J.M. Robertson, G.J. Schmitt

Public Sector Accounting: F. Devonport, G.H. Rush, J.N. Searle, D.A. Shand

Farm Accounting: A.W. Finnigan, H.R. Fountain, R.W. Glasgow, G.H. McEwen, D.V. Smith, C.R. Toomath

1979

Financial Accounting: R.A. Anderson, J.C. Hagen, T.R. Johnston, F.V. Noble-Beasley, J.D. Steele, A.J. Wakefield and P.W. Brooks (secretary)²

¹ Minutes of the Board of Research and Publications, *The Accountants' Journal*, 50:10 (1972), p.408.

Appendix H: Members of the Accounting Research and Standards Board and Financial Accounting and Research Subcommittees

Source: *Annual Reports*(Wellington, NZSA 1979-1990) and *The Accountants' Journal* 1979-1990

(The first name in each committee is the Chair)

1979 P.M. McCaw, R.A. Anderson, T.K. Cowan, G.W. Glasgow, P.L. Hays, T.R. Johnston, G.M. Minnis, D.V. Smith, H.S.J. Tilly, J.K. Torrance, D.G. Trow, J.A. Valentine.

Financial Accounting subcommittee (FAS)

R.A. Anderson, F. Devonport, D.M. Emanuel, J.C. Hagen, J.D. Steele, A.J. Wakefield, P.W. Brookes (Secretary).

1980 P.M. McCaw, R.A. Anderson, T.K. Cowan, G.C. Edgar, D.M. Emanuel, P.L. Hays, D.J.D. Macdonald, P.S. Martin, G.M. Minnis, H.S.J. Tilly, J.K. Torrance, J.A. Valentine.

(FAS)R.A. Anderson, F. Devonport, D.M. Emanuel, J.C. Hagen, J.D. Steele, A.J. Wakefield, P.W. Brooks(Secretary)

1981 P.M. McCaw, R.A. Anderson, G.C. Edgar, D.M. Emanuel, P.L. Hays, R.W. Hopkins, G.M. Lloyd, D.J.D. Macdonald, P.S. Martin, G.M. Minnis, H.S.J. Tilly, J.A. Valentine.

(FAS)R.A. Anderson, F. Devonport, D.M. Emanuel, J.C. Hagen, B.F.R. Scott, J.D. Steele, P.W. Brooks(Secretary)

1982 P.M. McCaw, R.A. Anderson, J.T. Chapman, D.M. Emanuel, P.L. Hays, R.W. Hopkins, G.M. Lloyd, D.J.D. Macdonald, B.W. McCloy, G.M. Minnis, G.S. Peterson, J.A. Valentine.

(FAS) R.A. Anderson, F. Devonport, D.M. Emanuel, J.C. Hagen, B.F.R. Scott, J.D. Steele, P.W. Brooks (Secretary)

Research Subcommittee(RS)

R.W. Hopkins, P.L. Hays, B.W. McCaw, G.M. Minnis

1983 A.N. Frankham, J.T. Chapman, D.M. Emanuel, J.C. Hagen, B.W. McCaw, D.J.D. Macdonald, G.M. Minnis, J.M. Ott, G.S. Peterson, J.D. Steele, D.G. Trow, J.A. Valentine.

(FAS) J.C. Hagen, F. Devonport, W.G. Cox, D.M. Emanuel, M.J. Hill, B.F.R. Scott.

(RS) D.G. Trow, P.L. Hays, B.W. McCaw, G.M. Minnis.

² *The Accountants' Journal*, 58:3 (1979), p.82.

- 1984 A.N. Frankham, J.T. Chapman, R.A. Anderson, P.W. Grayburn, J.C. Hagen, B.W. McCaw, D.J.D. Macdonald, G.M. Minnis, A.J.D. Moore, G.S. Peterson, J.D. Steele, D.G. Trow.
*(FAS)*J.C. Hagen, W.G. Cox, F. Devonport, M.J. Hill, B.F.R. Scott, M.S. Warbrick.
*(RS)*D.G. Trow, P.L. Hays, B.W. McCaw, G.M. Minnis.
- 1985 J.C. Hagen, R.A. Anderson, J.W. Cameron, M.J. Hill, D.J.D. Macdonald, G.M. Minnis, A.J.D. Moore, K.R. Rushbrook, J.D. Steele, D.G. Trow, G.W. Valentine.
*(FAS)*M.J. Hill, M.E. Bradbury, W.G. Cox, F. Devonport, B.F.R. Scott, T.J.W. Shaw, M.S. Warbrick.
*(RS)*D.G. Trow, M.J. Hill, D.J.D. Macdonald, G.M. Minnis.
- 1986 J.C. Hagen, R.A. Anderson, P.E.A. Baines, J.W. Cameron, M.J. Hill, D.J.D. Macdonald, G.M. Minnis, A.J.D. Moore, C.H. Notley, K.R. Rushbrook, D.G. Trow, G.W. Valentine.
*(FAS)*M.J. Hill, M.E. Bradbury, F. Devonport, B.S.P. Marra, B.F.R. Scott, T.J.W. Shaw, W.N. Tuttiett, M.S. Warbrick.
*(RS)*D.G. Trow, M.J. Hill, D.J.D. Macdonald, G.M. Minnis.
- 1987 J.C. Hagen, W.D. Allen, P.E.A. Baines, J.W. Cameron, M.J. Hill, D.J.D. Macdonald, G.M. Minnis, A.J.D. Moore, C.H. Notley, K.R. Rushbrook, D.G. Trow, G.W. Valentine.
*(FAS)*M.J. Hill, M.E. Bradbury, F. Devonport, B.S.P. Marra, T.J.W. Shaw, W.N. Tuttiett, M.S. Warbrick.
*(RS)*C.H. Notley, M.J. Hill, D.J.D. Macdonald, G.M. Minnis.
- 1988 J.C. Hagen, J.E. Aburn, W.D. Allen, I.D. Ball, J.W. Cameron, J.A. Cowan, M.J. Hill, D.J.D. Macdonald, A.J.D. Moore, C.H. Notley, K.R. Rushbrook, T. van Zijl.
*(FAS)*M.J. Hill, M.E. Bradbury, F. Devonport, E.M. Hickey, G.R. Judge, B.S.P. Marra, W.N. Tuttiett, M.S. Warbrick.
*(RS)*C.H. Notley, W.D. Allen, M.J. Hill, D.J.D. Macdonald.
- 1989 M.J. Hill, J.E. Aburn, W.D. Allen, I.D. Ball, J.W. Cameron, D.V. Christiansen, J.A. Cowan, E.M. Hickey, A.J.D. Moore, C.H. Notley, K.R. Rushbrook, T. van Zijl.
(FAS) E.M. Hickey, S.E. Bauld, M.E. Bradbury, B.J. Buddicom, F. Devonport, B.S.P. Marra, M.S. Warbrick, D. Wong.
(RS) C.H. Notley, E.M. Hickey, M.J. Hill, R.W. Hopkins.

1990 M.J. Hill, W.D. Aburn, I.D. Ball, J.W. Cameron, D.V. Christiansen, J.A. Cowan, P.L. Hays, E.M. Hickey, A.J.D. Moore, C.H. Notley, K.R. Rushbrook, T. van Zijl.

(FAS) E.M. Hickey, S.E. Bauld, M.E. Bradbury, B.J. Buddicom, F. Devonport, W. Hunt, B.W. McCulloch, B.S.P. Marra, M.S. Warbrick.

(RS) C.H. Notley, B.J. Buddicom, E.M. Hickey, R.W. Hopkins.

1991 M.J. Hill, W.D. Allen, I.D. Ball, J.W. Cameron, D.V. Christiansen, J.A. Cowan, P.L. Hays, E.M. Hickey, A.J.D. Moore, C.H. Notley, K.R. Rushbrook, T. van Zijl

(FAS) E.M. Hickey, S.E. Bauld, M.E. Bradbury, B.J. Buddicom, F. Devonport, W. Hunt, B.W. McCulloch, B.S.P. Marra, M.S. Warbrick

Appendix I: Members of the Financial Reporting Standards Board and Financial Reporting Committees 1 and 2

Source: *Annual Reports* (Wellington, ICANZ 1991-2011), *The Accountants' Journal* 1991-1993 and *The Chartered Accountants' Journal* 1994-2011

1992 M.J. Hill, I.D. Ball, P.L. Hays, E.M. Hickey, W. Hunt, B.S.P. Marra, C.H. Notley, J. Pallot, J.M.G. Perry, K.R. Rushbrook, T. van Zijl.

Financial Reporting Committee 1 (FRC1)

W. Hunt, M.E. Bradbury, P. Crimp, F. Devonport, G. Fissenden, M. Hucklesby, B.W. McCulloch, M.T.H. Matthews, M.S. Warbrick.

Financial Reporting Committee 2 (FRC2)

J.M.G. Perry, M. Cowden, K.J. Fox, C. Hair, R.M. McLeod, B.S.P. Marra, M. Schubert, T. van Zijl.

1993 M.J. Hill, I.D. Ball, K.J. Fox, P.L. Hays, E.M. Hickey, W. Hunt, B.S.P. Marra, J. Pallot, J.M.G. Perry, B. Sutich, T. van Zijl.

(FRC1) W. Hunt, M.E. Bradbury, P. Crimp, G. Fissenden, M. Hucklesby, B.W. McCulloch, M.T.H. Matthews, M.S. Warbrick, F. Devonport

(FRC2) J.M.G. Perry, M. Cowden, K.J. Fox, C. Hair, R.M. McLeod, B.S.P. Marra, M. Schubert, T. van Zijl.

1994 M.J. Hill, I.D. Ball, P.L. Hays, E.M. Hickey, W. Hunt, B.S.P. Marra, C. Notley, J. Pallot, J.M.G. Perry, K.R. Rushbrook, T. van Zijl.

(FRC1) W. Hunt, M.E. Bradbury, P. Crimp, G. Fissenden,

1995 M.J. Hill, I.D. Ball, K.J. Fox, P.L. Hays, E.M. Hickey, W. Hunt, B.S.P. Marra, J. Pallot, J.M.G. Perry, B. Sutich, T. van Zijl.

(FRC1) W. Hunt, M.E. Bradbury, S. Bradbury, P. Crimp, J. Dell, G. Fissenden, M. Hucklesby, G. Schollum, S. Todd, S. Warbrick, M. Westwood (consultant).

(FRC2) J.M.G. Perry, K. Baker, M. Cowden, A. Davis, K. Fox, C. Hair, F. Laswad, A. MacLeod, P. Marra, M. Schubert, F. Devonport (consultant).

- 1996 E.M. Hickey, I.D. Ball, K. Fox, P.L. Hays, W. Hunt, P. Marra, A. Paterson, J.M.G. Perry, K. Simpkins, J. Spencer, B. Sutich, T. van Zijl.
- (FRC1) W. Hunt, M.E. Bradbury, S. Bradbury, R. Chung, J. Dell, G. Fissenden, D. Hodgkins, M. Hucklesby, G. Schollum, S. Todd, S. Warbrick.*
- (FRC2) J.M.G. Perry, J. Brockies, P. Crimp, F. Devonport, K. Fox, C. Hair, F. Laswad, R.A. MacLeod, L. Provost, J. Santoro, H. Shuttleworth, T. Stephens.*
- 1997 E.M. Hickey, I.D. Ball, K. Fox, P.L. Hays, M. Hucklesby, W. Hunt, J.M.G. Perry, J. Ryniker, G. Schollum, K. Simpkins, J. Spencer, T. van Zijl, A. Mackenzie (secretary)
- (FRC1) W. Hunt, M.E. Bradbury, S. Bradbury, R. Chung, J. Dell, G. Fissenden, D. Hodgkins, M. Hucklesby, G. Schollum, S. Todd, S. Warbrick.*
- (FRC2) J.M.G. Perry, J. Brockies, P. Crimp, F. Devonport, K. Fox, C. Hair, F. Laswad, R.A. MacLeod, L. Provost, J. Santoro, H. Shuttleworth, T. Stephens.*
- 1998 E.M. Hickey, K. Fox, P.L. Hays, M. Hucklesby, W. Hunt, G. Leake, J.M.G. Perry, G. Schollum, K. Simpkins, J. Spencer, T. van Zijl, K. Warren.
- 1999 E.M. Hickey, L. Coutts, M. Hucklesby, W. Hunt, G. Leake, J.M.G. Perry, G. Schollum, K. Simpkins, J. Spencer, D. Thorn, T. van Zijl, K. Warren
- 2000 E.M. Hickey, M. Bradbury, L. Coutts, G. Leake, J.M.G. Perry, G. Schollum, K. Simpkins, D. Thorn, B. Waldron, K. Warren
- 2001 E.M. Hickey, M.E. Bradbury, L. Coutts, G. Leake, J.M.G. Perry, G. Schollum, K. Simpkins, S. Todd, B. Waldron, K. Warren
- 2002 T. van Zijl, M.E. Bradbury, J. Callaway, L. Coutts, D. Hodgkins, M. Hucklesby, G. Leake, J.M.G. Perry, G. Schollum, K. Simpkins, S. Todd, B. Waldron, K. Warren.
- 2003 T. van Zijl, T. Beardsworth, M.E. Bradbury, J. Callaway, L. Coutts, D. Hodgkins, M. Hucklesby, J. Miller, J.M.G. Perry, G. Schollum, S. Todd, K. Warren, C. Notley (SME project).
- 2004 J.M.G. Perry, T. Beardsworth, M.E. Bradbury, J. Callaway, L. Coutts, D. Hodgkins, M. Hucklesby, J. Miller, C. Notley, G. Schollum, S. Todd, K. Warren.
- 2005 J.M.G. Perry, T. Beardsworth, D. Boymal, M.E. Bradbury, J. Callaway, L. Coutts, D. Hodgkins, M. Hucklesby, C. Notley, S. Todd, K. Warren.

- 2006 J.M.G. Perry, T. Beardsworth, D. Boymal, M.E. Bradbury, C. Burns, M. Henry, D. Hodgkins, W. McGregor, C. Notley, M. Prichard, G. Schollum, R. Smyth, S. Todd, K. Warren.
- 2007 J.M.G. Perry, T. Beardsworth, D. Boymal, M.E. Bradbury, C. Burns, M. Henry, D. Hodgkins, C. Notley, M. Prichard, R. Smyth, S. Todd, K. Warren.
- 2008 J.M.G. Perry, T. Beardsworth, D. Boymal, M.E. Bradbury, C. Burns, M. Henry, D. Hodgkins, C. Notley, M. Prichard, R. Smyth, S. Todd, K. Warren
- 2009 J.M.G. Perry, M.E. Bradbury, C. Burns, D. Foster, M. Henry, D. Hodgkins, A. Ryan, R. Smyth, K. Thomson, S. Todd, S. Tomlinson, B. Porter, W. McGregor, K. Warren.
- 2010 J.M.G. Perry, N. Wong, C. Burns, D. Foster, K. Crook, D. Hodgkins, A. Ryan, K. Thomson, S. Todd, K. Hickey, B. Manning, K. Stevenson, K. Warren, W. McGregor.

Appendix J: Members of the Accounting Standards Review Board

Source: *Annual Reports* (Wellington, Accounting Standards review Board, 1995-2011)

<u>Year</u>	<u>Accounting Profession</u>	<u>Legal Profession</u>	<u>Other</u>
1994-1998	J.C. Hagen (Chair), P.L. Hays, R. Hill, T. van Zijl, I.D. Ball	J. Lusk	J. Anderson
1999-2001	J.C. Hagen (Chair), P.L. Hays, R. Hill, T. van Zijl, I.D. Ball	J. Lusk	J. Spencer
2002	J.C. Hagen (Chair), F. Laswad E.M. Hickey, S Sheldon	J. Lusk	J. Spencer
2003	E.M. Hickey/W. Hunt(Chair), F. Laswad, K. Warren,* S. Sheldon	G. Downs	J. Spencer
2004	W. Hunt(Chair), F. Laswad, K. Warren	G. Downs	J. Spencer
2005-2007	W. Hunt(Chair), F. Laswad K. Warren/J. Rickman <i>C. Macek</i>	G. Downs	J. Spencer
2008	W. Hunt (Chair), F. Laswad, K. Simpkins, J. Rickman <i>C. Macek/J. Lucy</i>	G. Downs/ R. Simpson	J. Spencer
2009	K. Simpkins (Chair), F. Laswad, K. Warren <i>J. Lucy</i>	R. Simpson	
2010	K. Simpkins (Chair) M. Embling, K. Warren S. Carey, G. Mitchell <i>J. Lucy</i>	R. Simpson	

* K. Warren is in the public sector (Chief Accounting Officer, New Zealand Treasury); *Italics*- Chair, Financial Reporting Council, Australia

Appendix K: Research Officers

Source: *Annual Reports and Yearbooks* (Wellington, ICANZ, 1964-2003)

<u>Year</u>	<u>Title</u>	<u>Name</u>
1964-1966	Technical Officer	J. Pilcher
1967-1968	Executive Assistant	B.V. Smith
1969-1972	Research Officer	B.V. Smith
1973-1975	Research Officer	G.S. Palmer
1977-1981	Research Officer	A.R. Salole
1982	Research Director	C.A.P.N. Carslaw
1983	Senior Research Officer	C. Westworth
1984	Director of Research	C. Westworth
1985		K.W.J. Murray (seconded from Arthur Young)
1985-1988	Director of Research	T. van Zijl
1988	Research Officer	P.F. Brunner
1989-1991	Director of Research	B.A. Porter
1991-1993	Director of Research	K.J. Simpkins
1993-1994	Technical Director	A.L. Mackenzie
1995-2002	Director of Accounting and Professional Standards	A.L. Mackenzie

Appendix L: Interviewees

Source: *Annual Reports* and *Yearbooks* (Wellington, ICANZ, 1960-2010) and biographical summaries on websites of current employers.

<u>Name</u>	<u>Involvement in standard setting</u>	<u>Related Employment</u>
I.D. Ball FCA	Public Sector Accounting Committee 1970s ARSB 1988-1990 ASRB 1994-2001	Treasury 1987-1994; Chair IFAC Public Sector Committee 1995-2000; Chief Executive Officer IFAC 2002-
M.E. Bradbury FCA	Financial Accounting Committee 1985-1990 Financial Reporting Committee 1992-1997 FRSB 2000-2009	Professor of Accounting, Massey University, Albany; member International Financial Reporting Interpretations Committee, IASB
F. Devonport FCA	Board of Research and Publications 1968-1978 Financial Accounting Committee 1979-1990 Financial Reporting Committee 1992-1997	Professor of Accounting University of Canterbury
D.M. Emanuel FCA	Financial Accounting Committee 1979-1983 ARSB 1980-1983	Ernst and Young Chair in Financial Accounting, University of Auckland
J.C. Hagen FCA	Financial Accounting Committee 1979-1984 ARSB 1983-1988 Chair 1985-1988 ASRB	former Chairman Deloitte Touche Tohmatsu NZ and President, NZICA

E.M. Hickey FCA	Financial Accounting Committee 1988-1990 Chair 1989, 1990 Research Committee 1989, 1990 ARSB 1989, 1990 FRSB 1991-2002, Chair 1996-2002 ASRB 2002-2003	Adjunct Professor of the University of Auckland Business School, Department of Finance and Accounting; former Director of Technical Activities IASB, London; New Zealand Securities Commission; NZICA Board
D.J.D. Macdonald FCA	ARSB 1980-1988 Research Committee 1985-1988	Adjunct Professor School of Accounting and Commercial Law, Victoria University of Wellington; Auditor General 1995-2002
A.L. Mackenzie FCA	Director of Accounting and Professional Standards 1995-2002	Technical Advisor to Chair of International Federation of Accountants Public Sector Accounting Standards Board; Global Head of Public Policy and External Affairs for Grant Thornton International, New York; International Valuation Standards Council Board of Trustees
J.M.G. Perry FCA	FRSB Chair 2004- Financial Reporting Committee 1992-1997 Chair 1992-1997	Australian Accounting Standards Board 2004-; Member Trans Tasman Accounting and Auditing Advisory Group; member IFRIC 2008-
K.L. Simpkins FCA	FRSB 1995-2002 ASRB 2008- Chair 2009-	Technical Advisor 1991-1993 and member International Public Sector Accounting Standards Board 1997-2003; Chair Trans Tasman Accounting And Auditing Standards Advisory Group; member Australian Financial Reporting Council; Deputy Auditor General; Adjunct Professor, School of Accounting and Commercial Law, Victoria University of Wellington

S. Todd FCA	FRSB 2001- Financial Reporting Committee 1995-1997	Director, Accounting Consulting Services, PriceWaterhouseCoopers
D.G. Trow FCA	Board of Research and Publications 1967- 1978 ARSB 1979, 1983- 1987	Professor of Accounting Victoria University of Wellington (retired 2003)
T. van Zijl FCA	ARSB 1988-1990 FRSB 1991-1994, 2002, 2003 Chair 2002, 2003 Financial Reporting Committee 1992-1994	Professor of Accounting and Financial Management Victoria University of Wellington; Director, Centre for Accounting, Governance and Taxation Research

Appendix M: Interview Questions

WHEN and HOW have you been involved in the determination and writing of accounting standards in New Zealand?

WHY did you become involved? Did you perceive a need; was “true and fair” an issue; was “true and fair” practicable in financial reports?

WHAT was the process/procedure used when you were involved in the determination and writing of accounting standards in New Zealand? Length of the process?
What are your thoughts on the process used? Was the process adequate? Were there alternative processes and could these have been applied?

WHICH accounting standards did you help to write? Were they ones that you would have expected to be developed at that time? Which ones were easier to produce than others? Was there a particular reason why these accounting standards were developed when they were?
Can you recall the **circumstances that led a standard being put on the agenda** of your committee; or even deferred?
Are there any areas where **New Zealand was leading** the rest of the world in the development of a particular accounting standard?

WHAT pressures/influences were there when you were involved?
Internal/external to the Institute; links between particular accounting standards and particular pressures; the significance of these pressures and did they vary over time?
How influential were developments overseas? Did that vary with time or standard?

Was accounting theory influential in the process of developing the accounting standards? How important for your committee were the developments in accounting theory overseas?
What was the **extent of the involvement of the universities/ academics** in the process? Were the academics on the committees expected to be the providers of accounting theory; did they theorize what was being developed in the accounting standards?
How important was the idea of a **conceptual framework/** problems with measurement/ defining objectives?

WHAT people were significant in developing the accounting standards that you were involved in determining and writing-introducing the topic/ working on the committees?
In what way and to what extent were interest groups involved; were they New Zealanders/ public practitioners/ auditors/ government or public sector employees?

How effective were/are the standards you helped write? What was improved by having the standards; were other problems created?

Are there any **areas that you consider have not been resolved** through issuing accounting standards/because no accounting standard has been issued? Are there particular reasons for this?

SINCE your involvement in the determination and writing of accounting standards what are your comments on the development of accounting standards in New Zealand?
Which standards have been/are effective; why?
Which processes/procedures have worked/are successful; why?
What has been the influence of accounting theory on the development of accounting standards? Was this expected?
What has been the influence of the development of international accounting standards? Should the accounting profession, rather than other organizations/institutions be responsible for the development of accounting standards?
What has been the influence of economic events in New Zealand and overseas?
What do you see as the future for accounting standards?

Appendix N: Accounting Standards: Tentative Statements of Accounting Practice

Source: *New Zealand Accounting Standards* (Wellington, Institute of Chartered Accountants of New Zealand, 1990-2005)

		<u>Issued</u>
TSAP-1	Presentation of Company Balance Sheets and Profit and Loss Accounts	Oct 1964
TSAP-2	Allocation of Income Taxes to Accounting Periods	Oct 1966
TSAP-3	Valuation of Inventories	Feb 1967
TSAP-4	Depreciation of Fixed Assets	Feb 1968
TSAP-5	Accountants' Report for Prospectuses	Mar 1968
TSAP-6	Depreciation of Fixed Assets	Nov 1972
TSAP-7	Accounting for Associated Companies (Equity Accounting)	Jul 1973
TSAP-8	Disclosure of Accounting Policies	Mar 1974
TSAP-9	Valuation of Inventories for External Reporting	Nov 1974

Appendix O: Accounting Standards: Statements of Standard Accounting Practice

Source: *New Zealand Accounting Standards* (Wellington, Institute of Chartered Accountants of New Zealand 1990-2005)

1. Statements of Accounting Practice

	<u>Issued</u>
SAP 1 Presentation of Company Balance Sheets and Profit	Sep 1966
SAP 2	
SAP 3 Valuation of Inventories	May 1969

2. Conceptual Framework Statements

Statement of Concepts for General Purpose Financial Reporting	Jun 1993
Framework for Differential Reporting	Feb 1994 Revised Apr 1997
Explanatory Foreword to General Purpose Financial Reporting	Jan 1995

3. Statements of Standard Accounting Practice

	<u>Issued</u>
SSAP 1 Disclosure of Accounting Policies	Nov 1974 Revised Dec 1983
SSAP 2 Accounting for Associated Companies (Equity Accounting)	Dec 1974
SSAP 3 Depreciation of Fixed Assets	Aug 1975 Revised Oct 1984
SSAP 4 Valuation and Presentation of Inventories in the context of the Historical Cost System (incorporating IAS 2)	Nov 1975 Revised Apr 1986
SSAP 5 Events Occurring after Balance Date	Dec 1976 Revised Jul 1985
SSAP 6 Materiality in Financial Statements	Aug 1977 Revised Jul 1985

SSAP 7 Extraordinary Items and Prior Period Adjustments (adapted from ICAEW SSAP M-6)	Dec 1977 Revised Oct 1986
SSAP 8 Consolidated Financial Statements	Aug 1978 Revised Apr 1984
Accounting for Business Combinations	Oct 1987 Revised Oct 1990
SSAP 9 Information to be Disclosed in Company Balance Sheets and Profit and Loss Accounts (based on IAS 5)	Aug 1978
SSAP 10 Statement of Changes in Financial Position Statement of Cash Flows	Jul 1979 Oct 1987
SSAP 11 Expenditures Carried Forward to Future Accounting Periods	Dec 1979
SSAP 12 Accounting for Income Tax	Apr 1980 Revised Jun 1991
SSAP 13 Accounting for Research and Development Activities	Aug 1981 Revised Mar 1991
SSAP 14 Accounting for Profit on Construction Contracts	Mar 1982
SSAP 15 Accounting for Contingencies	Dec 1982
SSAP 16 Accounting for Government Grants	Oct 1984
SSAP 17 Accounting for Investment Properties by Property Investment Companies	1985
Accounting for Investment Properties and Properties Intended for Sale	Feb 1989
SSAP 18 Accounting for Leases and Hire Purchase Contracts	Jul 1985 Revised Jun 1990
SSAP 19 Accounting for Goods and Services Tax	Jun 1986
SSAP 20 Accounting for Shares Issued Under a Dividend Election Plan	Jun 1986
SSAP 21 Foreign Currency Disclosure	1987
Accounting for the Effects of Changes in Foreign Currency Exchange Rates	Apr 1988
SSAP 22 Related Party Disclosures	Nov 1988

SSAP 23 Financial Reporting for Segments	Jul 1989
SSAP 24 Interim Financial Statements	Aug 1989
SSAP 25 Accounting for Interests in Joint Ventures and Partnerships	Jun 1990 Revised Nov 1992
SSAP 26 Accounting for Defeasance of Debt	Oct 1990
SSAP 27 Right of Set-Off	Oct 1990
SSAP 28 Accounting for Fixed Assets	Jul 1991

Appendix P: Accounting Standards: Exposure Drafts

Sources: (1) R.F. Baskerville *Dimensions of CCA-1: An oral history study of the failure of the inflation accounting standards in New Zealand*, Appendix: Accounting Standard Exposure Drafts Issued in New Zealand, Thesis: Master of Commerce and Administration in Accountancy, (Wellington, Victoria University, 1994).

(2) *New Zealand Accounting Standards* (Wellington, Institute of Chartered Accountants of New Zealand 1990-2005)

(3) *The Accountants' Journal* 1975-2010

	<u>Issued</u>
ED Hire Purchase and Instalment Sale Transactions	Mar 1970
ED Disclosure of Accounting Principles	Nov 1972
ED Valuation of Inventory	Oct 1972
ED Accounting for Associated Companies	Jan 1973
ED Accounting for Business Combinations / Preparation of Consolidated Accounts	
ED Expenditure carried forward to subsequent periods	
<i>ED-10 to ED-21 issued by Board of Research and Publications</i>	
	<u>Issued</u>
ED-10 Accounting for Changes in the Purchasing Power of Money	Mar 1975
ED-11 Accounting for Income Taxes: deferred taxation	Jun 1975
ED-12 Extraordinary Items and Prior Period Adjustments (Adapted from ICAEW SSAP M6)	Nov 1975
ED-13 Events occurring after Balance Date (Adapted from ED prepared by Australian ASC Jul 1974)	Dec 1975
ED-14 Accounting in Terms of Current Costs and Values	Aug 1976
ED-15 Materiality in Financial Statements	Oct 1976
ED-16 Consolidated Financial Statements	Feb 1977
ED-17 Information to be Disclosed in Company Balance Sheets and Profit and Loss Accounts	Feb 1977
ED-18 Statement of Source and Application of Funds	Apr 1977
ED-19 Expenditure Carried Forward to Subsequent Accounting Periods	Sep 1977

ED-20	Accounting for Inter-period Allocation of Income Tax	Jun 1978
ED-21	Accounting for Research and Development Activities	Jun 1979
<i>ED-22 to ED-66 issued by the Accounting Research and Standards Board</i>		
ED-22	Account for Profit on Construction Contracts	Sep 1980
ED-23	Determination and Disclosure of Accounting Policies	Dec 1980
ED-24	Accounting for Contingencies	Feb 1981
ED-25	Current Cost Accounting	Aug 1981
ED-26	Earnings Per Share	Mar 1982
ED-27	Accounting for Government Grants	Dec 1982
ED-28	Depreciation of Fixed Assets	Jul 1983
ED-29	Accounting for Investment Properties and Properties Intended for Sale	Jul 1983
ED-30	Accounting for Leases and Hire Purchase Contracts	Mar 1984
ED-31	Accounting for Events Subsequent to Balance Date	Aug 1984
ED-32	Materiality in Financial Statements	Aug 1984
ED-33	Accounting for Inventories	Feb 1985
ED-34	Extraordinary Items and Prior Period Adjustments	Dec 1985
ED-35	Accounting for Goods and Services Tax	Mar 1986
ED-36	Accounting for Shares Issued Under a Dividend Election Plan	Mar 1986
ED-37	Accounting for the Effects of Changes in Foreign Currency Exchange Rates	May 1986
ED-37A	Accounting for the Effects of Changes in Foreign Currency Exchange Rates	May 1987
ED-38	Accounting for Business Combinations	Oct 1986
ED-39	Statement of Cash Flows	Feb 1987
ED-40	<i>never issued</i>	

ED-41 Related Party Disclosures	Feb 1988
ED-42 Development Margins	Mar 1988
ED-43 Accounting for Intangibles	Jul 1988
ED-44 Financial Reporting for Segments	Jul 1988
ED-45 Accounting for Investment Properties and Properties Intended for sale	Aug 1988
ED-46 Interim Financial Statements	Nov 1988
ED-47 Set-off and Extinguishment of Debts	Feb 1989
ED-47A Accounting for Defeasance of Debt	Feb 1990
ED-48 Accounting for Interests in Joint Ventures and Partnerships	Mar 1989
ED-49 Accounting for Business Combinations	Feb 1990
ED-49A Accounting for Business Combinations	Jun 1990
ED-50 Accounting for Fixed Assets	May 1989
ED-50A Accounting for Fixed Assets	Jun 1990
ED-51 Accounting for Leases and Hire Purchase Contracts	Oct 1989
ED-52 Accounting for Income Tax	Mar 1990
ED-53 Right of Set-Off	Feb 1990
ED-54 Accounting for Research and Development Activities	Jun 1990
ED-55 Statement of Cash Flows	Feb 1991
ED-56 Prospective Financial Information	Jul 1991
ED-57 Extraordinary Items and Fundamental Errors	Aug 1991
ED-57A Extraordinary Items and Fundamental Errors	Aug 1992
ED-58 Reporting Share Ownership Plans in General Purpose External Financial Reports	Aug 1991
ED-59 Explanatory Foreword to General Purpose Financial Reporting	Dec 1991

ED-60 Concepts for General Purpose Financial Reporting	Dec 1991
ED-61 Interpreting Concepts for General Purpose Financial Reporting for Public Sector Entities	Dec 1991
ED-62 Framework for Differential Reporting	Dec 1991
ED-63 Application of Differential Reporting	Dec 1991
ED-64 Disclosure of Accounting Policies	Dec 1991
ED-65 Presentation of Financial Reports	Dec 1991
(EDs 59-65 formed the proposed Framework for Financial Reporting)	
ED-66 Disclosure of Information about Financial Instruments	Feb 1992
<i>ED-67 to ED-70 issued by the Financial Reporting Standards Board</i>	
ED-67 Information to be Disclosed in Financial Statements	Dec 1992
ED-68 Financial Reporting by Superannuation Schemes	Feb 1993
ED-69 Accounting for Research and Development Activities	Mar 1993
ED-69A Accounting for Research and Development Activities	Feb 1995
ED-70 Accounting for Grants and Donations	May 1993
<i>EDs issued by Accounting Standards Review Board</i>	
ED-71 Accounting for Defeasance of Debt	Sep 1993
ED-72 Accounting for Goods and Services Tax	Sep 1993
ED-73 Disclosure of Information by Financial Institutions	Apr 1994
ED-73A Disclosure of Information by Financial Institutions	Nov 1995
ED-74 Related Party Disclosures	May 1994
ED-75 Half-Year Financial Reports	Jan 1995
ED-76 Guidance notes on the application of FRS-31 for Financial Institutions	Feb 1995
ED-77 Guidance notes on the application of FRS-31 for Entities other than Financial Institutions	Feb 1995

ED-78 Disclosure of Contingencies	Jun 1995
ED-79 Financial Reporting of Life Insurance Business	Jul 1996
ED-80 Accounting for the Effect of Changes in Foreign Currency Exchange Rates	Aug 1996
ED-81 Accounting for Investments in Associates	Jul 1997
ED-82 Accounting for Property, Plant and Equipment	Mar 1998
ED-83 Accounting for Acquisitions Resulting in Equity Combinations	Jun 1998
ED-84 Consolidating Investments in Subsidiaries	Jun 1998
ED-85 Financial Reporting of Insurance Activities	Nov 1998
ED-86 Accounting for Provisions and Contingencies (Based on IAS- 37 Provision Contingent Liabilities and Contingent Assets)	May 1999
ED-87 Accounting for Intangible Assets (Based on IAS- 38 Intangible Assets)	May 1999
ED-88 Events After Balance Date	Dec 1999
ED-89 Summary Financial Statements	Aug 2000
ED-89A Summary Financial Reports	Nov 2001
ED-90 Agriculture	Apr 2002
ED-91 Related Party Disclosures	Apr 2002
ED-92 Preface to Financial Reporting Standards	Jun 2002
ED-93 Share-based Payment	Nov 2002
ED-94 Business Combinations	Dec 2002
ED FRS-34A Life Insurance Activities	Oct 2003
ED FRS-35A Financial Reporting of Insurance Activities	Oct 2003

Exposure Drafts of New Zealand International Financial Reporting Standards issued from the end of 2003. See ICANZ website.

Appendix Q: Accounting Standards: Research Bulletins

Source: *New Zealand Accounting Standards* (Wellington, Institute of Chartered Accountants of New Zealand, 1990-2005)

	<u>Authors</u>	<u>Issued</u>
R-101 Depreciation of Fixed Assets	T.K. Cowan F.V. Noble-Beasley	Feb 1971
R-102 Accounting for Income Taxes	D.G. Trow	May 1971
R-103 The Statement of Source and Application of Funds	T.K. Cowan	Jul 1971
R-104 Consolidated Accounts (Business Combinations)	D.M. Emanuel	Aug 1973
R-105 Hire Purchase and Instalment Credit Transactions (Accounting for Unearned Profit)	J.D. Rose M.K. Twomey	Aug 1973
R-106 Expenditure Carried Forward to Subsequent Accounting Periods	R.L. Challinor	Dec 1973
R-107 Accounting for Price Changes	B. Popoff	Jun 1974
R-108 Financial Statements of Lessors and Lessees	W.D.J. Cotton	Mar 1975
R-109 Trend Statements	B.W. McCloy	Dec 1975
R-110 Presentation of Company Balance Sheets and Profit and Loss Accounts	R.C. Pope R.J.S. Burns	Feb 1976
R-111 A Guide to the Disclosure of Accounting Policies	J.C. Waugh W. Sumpter	Sep 1976
R-112 Accounting for Goodwill	R.E. Stewart	Sep 1980
R-113 Accounting for Related Party Transactions	W.G. Cox F. Devonport	Jul 1982
R-114 Financial Reporting for Pension Schemes	J.B. Hindin	Dec 1982
R-115 The Reporting of Segmental Information	F. Devonport G.M. McNally	Dec 1985
R-116 Accounting for Companies involved in Cross-Shareholdings	D.G. Trow T. van Zijl	Oct 1986

R-117 Accounting for Forestry Activities in New Zealand	A.R. Davy	Feb 1987
R-118 The Realisation Concept and its relevance to income determination	G.R. Fissendon B.W. McCulloch	May 1987
R-120 Financial Reporting by Voluntary Sector Entities		Jan 1999

Technical Practice Aids

TPA-1 Dividends on Specified Preference Shares		<u>Issued</u> Apr 1979
TPA-2 Exchange Differences on Foreign Currency Loans		Jul 1980
TPA-3 Accounting for the Revaluation and Disposal of Fixed Assets in the Context of the Historical Cost System		Sep 1981
TPA-4 Earnings Per Share		May 1983
TPA-5 Valuation of Livestock in the Financial Statements of Farming Enterprises		May 1986
TPA-6 Accounting for Extractive Industries		Feb 1987
TPA-7 Accounting for Bloodstock Enterprises		Nov 1988
ED-TPA-8 Accounting Issues Arising from the Companies Act 1993		Nov 2001
TPA-9 Service Performance Reporting		Aug 2002

Appendix R: Accounting Standards: Discussion Papers, Interpretations and Guidance Notes

Source: *New Zealand Accounting Standards* (Wellington, Institute of Chartered Accountants of New Zealand 1990-2005)

Discussion Papers

	<u>Issued</u>
Public Sector Accounting Standards	Mar 1985
Extraordinary Items and Prior Period Adjustments	Nov 1985
Statement of Public Sector Accounting Concepts	Jun 1986
Accounting for the Effects of Changes in Foreign Currency Exchange Rates	Jun 1986
Statement of Cash Flows	Feb 1987
ED-37A Accounting for the Effects of Changes in Foreign Currency Exchange Rates	Jul 1987
ED-41 Related Party Disclosures	Feb 1988
ED-74	May 1994
ED-76 and ED-77	Feb 1995
FRS-32 Financial Reporting by Superannuation Schemes	May 1997
ED-81	Jul 1997
ED-82	Mar 1998
ED-83	Jun 1998
ED-84	Jun 1998
Proposed Amendments to Financial Reporting Standards And Other Pronouncements- Request for Comment (affected ED 81,83,84- which replaced SSAP 8- and FRS 2,7,9,10,24,29 and SSAP 25)	May 1998
ED-81	Nov 1998
ED-85	Nov 1998
ED-87	Apr 1999

ED-88	Dec	1999
Invitation to comment on The Basis for Revaluation of Property, Plant and Equipment	Dec	1999
ED-88	Dec	1999
Invitation to comment on The Reporting of Purchase Performance	Jul	1999
Invitation to comment FRS-29	Jul	2003
ED FRS-34A	Oct	2003
ED FRS-35A	Oct	2003

Interpretations and Guidance Notes

Interpretation No 7 (SSAP-9)	Dec	1985
Interpretation No 8 (SSAP-9)	Dec	1985
Interpretation No 9 (SSAP-8 & 9)	Dec	1989
Interpretation No 15 (SSAP-12)	Dec	1985
Interpretation No 16 (SSAP-10)	Apr	1989
Interpretation No 17 (SSAP-21)	Dec	1989
FRS-2 Presentation of Financial Reports	Aug	1994
Preparation of Statements of Cash Flows in accordance With FRS-10	Mar Aug	1992 1993
Application of the Partial Basis in Accounting For Deferred Income Tax	Feb	1995
Interpretation No 17	Dec	1989
Consequential Amendments to Financial Accounting Standards	Sep	2001

Appendix S: Accounting Standards: Special Reports and Accounting Standards Review Board Releases

Special Reports

Source: *New Zealand Accounting Standards* (Wellington, Institute of Chartered Accountants of New Zealand 1990-2005)

	<u>Issued</u>
Reporting Financial Performance: Proposals for Assets	Aug 1999
Reporting Interests- Joint Ventures and Similar Arrangements	Nov 1999
Accounting by Recipients for Non-Reciprocal Transfers	Feb 2000
Leases: Implementation of a New Approach	Feb 2000

Accounting Standards Review Board Releases

Source: *Annual Reports* (Wellington, ASRB, 1994-2010)

ASRB Release 1: Accounting Policies That Have Authoritative Support Within The Accounting Profession In New Zealand	Jun 1994
ASRB Release 2: Australia-New Zealand Harmonisation Policy On Accounting Standards	Jun 1994
ASRB Release 3: The Role Of The Accounting Standards Review Board And The Nature Of Approved Financial Reporting Standards	Aug 1994
ASRB Release 4: Accounting For Certain Life Assurance Offices	Aug 1994
ASRB Release 5: Application Of Standards To Local Authorities	Nov 1997
ASRB Release 6: The Role Of The Accounting Standards Review Board And The Nature Of Approved Financial Reporting Standards	Nov 2000
ASRB Release 7: Accounting Policies That Have Authoritative Support Within The Accounting Profession In New Zealand	Nov 2000
ASRB Release 8: The Role Of The Accounting Standards Review Board And The Nature Of Approved Financial Reporting Standards	May 2004
ASRB Release 9: The Role Of The Accounting Standards Review Board And The Nature Of Approved Financial Reporting Standards	Sep 2007

Appendix T: Accounting Standards: Financial Reporting Standards

Source: *New Zealand Accounting Standards* (Wellington, Institute of Chartered Accountants of New Zealand 1990-2005)

		<u>Issued</u>	
FRS-1 Disclosure of Accounting Policies		May	1994
FRS-2 Presentation of Financial Reports		May	1994
FRS-3 Accounting for Property, Plant and Equipment		Mar	2001
FRS-4 Accounting for Inventories		May	1994
FRS- 5 Accounting for Events Occurring After Balance Date	Revised	Mar Jul	1994 2000
FRS-6			
FRS-7 Extraordinary Items and Fundamental Errors	Revised	May	1994 1994
FRS-8			
FRS-9 Information to be Disclosed in Financial Statements	Revised	Feb May	1995 1996
FRS-10 Statement of Cash Flows	Revised	Mar	1994 1994
FRS-11			
FRS-12			
FRS-13 Accounting for Research and Development Activities		Feb	1995
FRS-14 Accounting for Construction Contracts		Jun	1994
FRS- 15 Disclosure of Contingencies		Nov	2000
FRS-16			
FRS-17			
FRS-18			
FRS-19 Accounting for Goods and Services Tax		Jun	1994

FRS-20 Accounting for Shares Issued Under a Dividend Election Plan		Jun	1994
FRS-21 Accounting for the Effects of Changes in Foreign Currency Exchange Rates	Revised	Dec Apr	1997 1998
FRS-22			
FRS-23			
FRS-24 Half-Year Financial Reports Interim Financial Statements		Jun	1995 1997
FRS-25			
FRS-26 Accounting for Defeasance of Debt		May	1995
FRS-27 Right of Set-Off		Mar	1994
FRS-28			
FRS-29 Prospective Financial Information	Revised	Mar Apr	1993 1996
FRS-30 Reporting Share Ownership Arrangements Including Employee Share Ownership Plans	Revised	Dec	1994 1994
FRS-31 Disclosure of Information about Financial Instruments		Mar	1993
FRS-32 Financial Reporting by Superannuation Schemes	Revised	Dec May Apr	1994 1997 1998
FRS-33 Disclosure of Information by Financial Institutions		Apr	1997
FRS-34 Life Insurance Business		Nov	1998
FRS-35 Financial Reporting of Insurance Activities		Jul	1999
FRS-36 Accounting for Acquisitions Resulting in Combinations of Entities or Operations		Oct	2001
FRS-37 Consolidating Investments in Subsidiaries		Oct	2001
FRS-38 Accounting for Investments in Associates		Oct	2001
FRS- 39 Summary Financial Reports		Sep	2002

Appendix U: New Zealand Equivalents to International Financial Reporting Standards Adopted in 2005

Source: New Zealand Institute of Chartered Accountants

http://www.nzica.com/AM/Template.cfm?Section=New_Zealand_Equivalents_to_International_Financial_Reporting_Standards

New Zealand Preface

NZ Preface

New Zealand Framework

New Zealand Equivalent to the IASB Framework for the Preparation and Presentation of Financial Statements

Differential Reporting

Framework for Differential Reporting under NZ IFRSs

New Zealand Equivalents to IFRS

NZ IFRS 1 First-time adoption of New Zealand Equivalents to International Financial Reporting Standards

NZ IFRS 2 Share-based Payment

NZ IFRS 3 Business Combinations

NZ IFRS 4 Insurance Contracts

NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

NZ IFRS 6 Exploration for and Evaluation of Mineral Resources

NZ IFRS 7 Financial Instruments: Disclosures

The ICANZ website lists New Zealand Equivalents to IAS, New Zealand FRS, New Zealand Equivalents to IFRIC and New Zealand Equivalents to SIC from 2005 to the present day.