



Harold Cecil Edey
A Collection of
Unpublished Material
from a 20th Century
Accounting Reformer

Martin E. Persson

Studies in the
Development of
Accounting Thought
Volume 23

HAROLD CECIL EDEY

STUDIES IN THE DEVELOPMENT OF ACCOUNTING THOUGHT

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ACCOUNTING THOUGH VOLUME 23

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UNPUBLISHED MATERIAL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

EDITED BY

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FOREWORD

This edited volume contains 13 of Harold Cecil Edey's (1913–2007) unpublished essays, manuscripts, and speeches.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

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of the development of accounting thought (e.g., see Persson, 2016, for a similar compilation of A. C. Littleton's unpublished work).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

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

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

Edey was born in South London in 1913, and he remained in the city through secondary school. He articulated with a small local firm, John Baker Sons & Bell in 1930, and qualified as a Chartered Accountant with the Institute of Chartered Accountants in England and Wales (ICAEW) in 1935. The following years were spent working at Deloitte, Plender, Griffiths & Co. (today Deloitte), Whitehall Securities Corporation (today Pearson PLC), and then serving in the Royal Naval Volunteer Reserve during the war effort. Edey received a “Class A” release after the defeat of Germany, and he returned to London to complete a B.Com. degree at the LSE, graduating in 1947.⁴ His performance in the coursework led to an appointment as a research assistant to the economist Frank Paish, then a part-time lectureship, and eventually a full-time lectureship in accounting and business finance in 1949 (for more biographical information about Edey, see Appendix 1; Bailey, 2009; Macve, 2007).

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

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

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

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

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

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

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

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

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

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

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

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

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

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NOTES

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

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

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

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

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

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

HAROLD C. EDEY, 1913–2007



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