The influence of regulation on the publication of consolidated statements

Author: Mack, Janet

Publication Date: 1997

DOI: https://doi.org/10.26190/unsworks/9851

License: https://creativecommons.org/licenses/by-nc-nd/3.0/au/
Link to license to see what you are allowed to do with this resource.

Downloaded from http://hdl.handle.net/1959.4/64779 in https://unsworks.unsw.edu.au on 2023-09-15
Report submitted for the award of the degree of
Master of Commerce (Hons)

School of Accounting
Faculty of Commerce and Economics
University of New South Wales

The influence of regulation on the publication of consolidated statements

Janet Mack

Student No. 3977062
September 1997
ABSTRACT

This study examines factors influencing Australian companies to publish consolidated financial statements. Prior studies (e.g., Whittred 1986, 1987) suggested that the use of consolidated statements was closely associated with high levels of debt (which he interpreted as a proxy for debt contracts). This study examines the impact of regulation on accounting practice. It determined that indeed very few companies had ever consolidated in a completely unregulated environment given that the first regulatory provisions relating to consolidation were established in 1928. It first examined the population of industrial companies listed on the Sydney Stock Exchange at 30th January 1958, just prior to changes in company laws which encouraged the use of consolidated statements, to establish their consolidation status. Secondly, it examined the date and place of incorporation and stock exchange listing of the companies to establish what if any regulatory influences they were operating under with regard to consolidation. This process identified which listed companies (which had subsidiaries and so were eligible to use this form of reporting) appear to have published consolidated statements in response to either statutory or institutional requirements. This step identified two groups of companies - voluntary consolidators and regulation influenced consolidators. Various debt characteristics of these two groups of companies were compared. The evidence showed that there was a strong link between the timing of companies publishing consolidated financial statements for the first time and the emergence of regulatory imperatives. The empirical evidence which unlike Whittred's study was derived from the annual reports rather than secondary sources showed no significant difference in the debt/equity ratios between the two groups of companies. An examination of the types of debt held by first time consolidators indicated that those companies which carried unsecured debt in the form of unsecured notes and debentures were less likely to be voluntary consolidators. This is contrary to Whittred's findings as these were the companies which might be supposed to have entered into debt contracts. It is evident that there have undoubtedly been several influences on the decision companies have made to publish consolidated financial statements. This study has found that while regulation was not the precursor of the publication of consolidated financial statements it had a significant impact on the adoption of the practice.
## CONTENTS

1. Introduction ............................................. 1
2. Prior research .......................................... 3
3. History of Australian regulatory requirements for the provision of consolidated statements 12
4. Research design: influence of regulation ............ 18
5. Findings regarding the influence of regulation ....... 23
6. Alternative hypotheses concerning incentives for consolidation 25
7. Summary and discussion of findings ................. 34

References ..................................................... 40
1. INTRODUCTION

Does accounting regulation shape accounting practice? Or is accounting practice the precursor of regulation, in a process whereby certain accounting practices come to the attention of regulatory agencies, which then determine a preference for specific practices and then reinforce or mandate those techniques? To what extent do debates about the merits of different accounting methods, or educational programs, influence practice?

The history of accounting regulation suggests that the answers to these questions may be mixed. Some accounting techniques (for example, the establishment of provisions for doubtful debts, or the recording of depreciation on durable assets) were widely used and widely accepted - so that the introduction of regulatory requirements requiring the adoption of those techniques was unlikely to have a major effect on practice. Occasionally new regulatory requirements overturn prior regulatory requirements (eg the substitution of cash flow statements for funds statements), or introduce new disclosure formats which had not previously been encountered in exactly that form (eg the 1985 requirements of Schedule 7 of the Companies Act and Codes for reports on the valuation of land and buildings). But in many instances, regulatory requirements merely mandate forms of reporting which had previously been used in practice. It appears that the technical literature frequently influences both practice, and regulation.

While there have been a series of studies exploring the history of specific accounting presentations or techniques, these have relied in the main on reviews of the technical literature, and occasional surveys of practice. There have been a series of studies which have articulated hypotheses about the factors which guide accounting choices, and then presented evidence to test those hypotheses. But very few empirical studies have investigated the impact of regulation on accounting practice.

Exceptions include Whittred's (1986, 1987) studies of the adoption of consolidated financial reporting by Australian companies. Whittred sought to explain the popularisation of the use of consolidated statements by invoking a hypothesis commonly associated with agency theory and the work of Watts & Zimmerman (1986): managers will adopt accounting procedures to reduce agency costs and maximise the value of the firm to the benefit of all participants. Whittred's 'central argument' was that 'in those instances in which (consolidated) financial reporting was adopted it reduced agency costs ' (Whittred 1987, p. 259).
An extension of such an argument is the claim that managers face sufficient incentives
to provide 'appropriate' accounting information; and that hence there is no need for
regulation. Whittred argued that regulation played a minimal role in the introduction of
reporting via consolidated statements. He referred to cases of companies 'voluntarily'
using consolidated statements, and presented this as evidence that the wider use of
consolidated statements was closely associated with the emergence of a 'market for
debt'. While conceding that the development of consolidated accounting was unlikely to
have been totally independent of regulatory activity, he claimed that the evolution of
consolidated financial reporting 'was a natural response to an increasingly sophisticated
and innovative a market for debt capital' (Whittred, 1986, p. 116).

This study replicates Whittred's 1986 and 1987 studies of consolidation accounting in
Australia, insofar as it examines the reporting practices of a set of listed companies over
an extended period. Whereas Whittred's studies sought to determine the incidence of
voluntary adoption of consolidation accounting (ie adoption prior to regulatory
requirements), this study assesses the significance of regulatory influences on the use
and popularisation of consolidation accounting. As such, the main purpose of the study
is to assemble new evidence about the introduction of consolidation reporting in
Australian accounting practice prior to 1961, and to relate that evidence to changes in
regulatory requirements from differing sources, and of differing authority.

The opportunity is also taken to re-examine some of the claims made by Whittred about
the influence of contracting procedures aimed at reducing agency costs on the evolution
of consolidated financial reporting.

Overall, the findings indicate that there are grounds to reject Whittred's claims that the
emergence of a 'market for debt' was the primary (or even a major) factor encouraging
consolidation accounting (1986), and his claims that 'agency or contracting cost
variables overwhelmed all others in terms of explanatory power' (1988, p. 5,
emphasis added).

The paper is arranged as follows. Section 2 reviews prior research in the area, while
Section 3 provides a brief review of the history of relevant regulation affecting reporting
via consolidated statements. Sections 4 and 5 outline the design of the study and
present initial findings regarding the influence of regulation on the initial adoption of
consolidation accounting by Australian listed companies, Section 6 examines alternative
hypothesis concerning incentives for consolidation. The final section reviews the findings and considers the extent to which it is sensible to interpret the evidence as indicating the presence of a simple causal relationship between single factors (eg regulation, or the preferences of lenders) and subsequent reporting practices.

2. PRIOR RESEARCH

Whittred's initial (1986) study reviewed what were described as 'institutional reporting requirements' relating to the presentation of consolidated statements, and then related the frequency with which companies published consolidated statements at various points within the period 1920 -1953, to changes in those requirements. The findings were primarily based on a simple review of two sets events: changes in reporting requirements, and changes in practice as observed by observations at different times.

However doubts must be expressed about the accuracy of Whittred's data concerning the frequency with which eligible companies initially adopted the practice of reporting via consolidated statements. Whittred collected evidence about consolidation practices in the states of NSW and Victoria from Jobson’s Investment Digest, but only for the calendar years 1920, 1930-40 and 1953. Whittred indicated that he had presented figures which were 'intended' to reflect the proportion of companies which were presenting consolidated statements and which were entitled to do so (ie companies with subsidiaries). But Whittred was only able to record data regarding the number of companies which could 'unambiguously be identified as having subsidiaries' (ie from reports in Jobson’s Investment Digest). Indeed Whittred acknowledged that he was likely to have understated the number of holding companies and hence overstated the proportion of consolidators in any given year.

Whittred (1986) then referred to data relating to the sources of finance for a sample of 72 Australian companies during the period 1935-53, as obtained from Keown (1954) whose findings had been published in a shortlived journal, the Australian Accountancy Student. This evidence was interpreted as indicating that the decade of the 1950s saw increasing reliance on debt as opposed to equity capital, and in particular, on publicly-placed rather than private debt. The data from Keown's study of 72 companies - rather than data obtained from the balance sheets of consolidating companies - formed the basis of Whittred's suggestion that there were likely to have been changes in the information requirements of creditors which had shaped the practice of consolidation.
Whittred did not obtain or analyse these debt contracts, only quoting extracts from two 1950 prospectuses for the issue of unsecured notes. Both extracts referred to the financial position of the issuing company 'and its subsidiaries'. One might suppose that the agency argument would be stronger if such documents referred to the presence or otherwise of cross-guarantees - but neither did. Further, of course, these prospectuses would have been prepared by the issuing company, rather than potential lenders. However Whittred suggested that they reflected information requirements of 'creditors'.

The evidence presented in Whittred (1986) was rather slight, though it was sufficient for the author to conclude that the evolution of consolidated reporting was a response to an increasingly sophisticated and innovative market for debt capital.

Whittred rejected the alternative hypothesis that practice had been shaped by regulatory influences, on three grounds. First, that some companies were consolidating before there was any institutional requirement to do so; second, that alternatives to the preparation of consolidated statements were available to holding companies (ie the presentation of separate accounts for each subsidiary); and third, because the degree of compliance with regulation has varied over time. Yet these matters hardly provide sufficient grounds for rejecting the significance of regulation on the publication of consolidated statements. It is only to be expected that accounting practice would frequently predate 'regulation'. Regulatory requirements have often been described as a means of prescribing what has already been regarded as 'acceptable' (if not 'best') accounting practice. Moreover, many forms of regulation (including those in force during the period reviewed by Whittred) permitted a range of options. Moreover, some forms of regulation are less authoritative than others, or are not forcibly administered

---

1 The agency theory argument would suggest that companies would only be likely to consolidate companies linked by guarantees - since individual companies are regarded in Australian law as separate legal entities, and courts have refused to 'lift the veil' of incorporation to make holding companies or subsidiaries liable for the debts of an individual company. However where a holding company and its subsidiaries had entered into cross guarantees, then consolidated statements could provide a broad indication of the on-going capacity of those companies to repay debt. Even then, consolidated data would have to be interpreted with caution. For example, after modelling debt repayment scenarios in situations where a group of companies with both secured and unsecured debt became insolvent, Walker (1976) noted that the ultimate returns to lenders may depend on the sequence in which cross-guarantees are enforced. The broader point is that consolidated statements would be of limited usefulness to lenders where subsidiaries had entered into separate and autonomous arrangements with lenders, and had provided specific assets as security. In those situations, lenders would be more interested in the balance sheets and operating results of individual companies, and the current market values of assets provided as security for loans. Moreover, lenders would be in a position to demand special purpose reports, rather than rely on annual reports distributed to shareholders.
and enforced. Evidence that regulations permit a range of alternatives, or that there are variations in the degree of compliance with regulations, hardly indicate that regulatory requirements were of minimal influence.

Alternative approaches to assessing the significance of regulation would be to examine the extent to which regulatory requirements had led to changes in reporting practices, had standardised practice, had led to the disclosure of information which might otherwise not have been made available, or had eliminate practices which had been regarded as unacceptable.

Whittred (1986) did not attempt to explain why any of the three factors listed above precluded the possibility that regulatory requirements of differing authority may have influenced accounting practice. However companies which were preparing financial reports in Australia from the 1920s to the 1960s (the period reviewed in both Whittred's studies and this study) were subject to a complex array of regulatory requirements. Companies listed on Australian stock exchanges may have been incorporated in any one of Australia's states or territories, and as such would have been subject to different statutory requirements (at least until 1961 when an effort was made to develop 'uniform' companies regulations). Moreover, some listed companies were incorporated overseas, and hence were subject to the statutory reporting requirements of their place of incorporation. Further, the content of the listing rules of various Australian stock exchanges differed in significant respects.

In a later paper, Whittred reached even stronger conclusions about the significance of contracting practices in the evolution of consolidated financial reporting (Whittred, 1987). Consolidation accounting, it was argued, had been adopted in order to reduce agency costs (p. 259). The theoretical argument supporting this analysis made little reference to the issue of why lenders would find that consolidated statements might be supposed to reduce agency costs. There are a range of situations where the data in consolidated statements would not be immediately relevant to the concerns of lenders. For example, loans might be secured by priority charges over specific assets, which provided adequate security; a borrower's subsidiaries might not be wholly owned and may not have entered into guarantees to support the parent.

Whittred's 1987 paper repeated the historical background outlined in the 1986 paper though in far less equivocal terms. The 1986 paper had summarised this history as follows:

5
such regulations as have been introduced have always provided management with the option of either consolidating or adopting some other form of financial reporting.

However the 1987 paper referred to a 1938 Victorian statutory provision and a 1941 NSW listing rule as the first consolidation requirements in those states. (The validity of these assertions are examined in more detail in the following section). This enabled Whittred to present some evidence of the 'voluntary' use of consolidated statements (ie before these 'requirements' came into effect) in the period 1931-1941. That evidence came from the reports of a small sample of 10 companies (four incorporated in NSW, and six in Victoria).

Whittred (1987) then outlined three hypotheses concerning the circumstances in which consolidation might be adopted for reporting purposes in order to minimise agency costs. These hypotheses indicated that the likelihood of the use of consolidation for external reporting was greater (a) in the presence of cross guarantees between parent and subsidiaries (b) the smaller the management's relative share of the parent's equity, and (c) the greater the number of subsidiaries.

Evidence presented to test these hypotheses comprised a mix of empirical data and case study material. The case material concerned the circumstances of the 10 'voluntary consolidators', and was summarised as follows:

Consolidation followed closely (7/10 instances) a change in the underlying contracts in which the firms had entered. There were three instances of the creation of cross-guarantees, one in which the writing of a management compensation plan tied to 'group' profits and the creation of cross-guarantees occurred concurrently, two in which 'Articles of Association' were modified to require consolidation and one in which consolidation followed the writing of an agreement with preference shareholdings relating to participation in 'excess' profits. Changes in a firm's underlying contractual structure were in the majority of cases preceded by either, or both, a change in the firm's operating (5/7) or ownership (5/7) structure. (p. 274).

Since these case summaries were reproduced in detail in Whittred (1988), albeit for eleven rather than ten companies, it is possible to review the findings from alternative perspectives:
two of the 11 companies initially consolidated because of foreign regulatory requirements; the major shareholders of two other companies were domiciled overseas.

none of the three cases described as involving 'cross guarantees' appear to have been properly described as such: they only involved one-way guarantees from parent to subsidiary. This was quite a different relationship to that which would be established by cross guarantees whereby a set of companies would be jointly and severally liable for the liabilities incurred by individual companies - as was noted in the discussion justifying the hypothesis (p. 264). One the other hand, one company did disclose existence of a mortgage covering a Bank Overdraft which was supported by cross-guarantees.

only three companies reported a contingent liability arising from guarantees from the parent company to its subsidiaries. One of those involved disclosure in one year only, with no mention of it in either prior or subsequent years. The majority of cases (six) disclosed no contingent liabilities arising from guarantees.

in all cases except one the subsidiaries were 100% owned by the parent company. The exception wholly owned four subsidiaries, owned 75% of two, and 50%, 33% and 25% respectively of three further subsidiaries.

two 'voluntary consolidators' were incorporated in Victoria shortly before the enactment of the Victorian companies legislation which the author describes as the 'first Victorian requirement' for consolidation (and as such could have been influenced to consolidate by the impending legislation).

the adoption of consolidation was linked in five of the eleven cases with debates about the merits of consolidation involving shareholders, auditors, parent companies, board members or local Stock exchanges.

Unfortunately, in reporting these 11 cases, Whittred did not record when each of those firms obtained stock exchange listing, so that it is not possible to identify whether they were subject to listing rules which included the 'option' of consolidated reporting. However it was revealed that the Secretaries of the Sydney and Melbourne Exchanges had earlier sought to persuade one of these 'voluntary consolidators' to abide by listing rules introduced after the company had been initially admitted to listing (p. 155) - indicating that regulators were actively encouraging listed companies to adopt this practice.

Whittred's formal tests of his three hypotheses involved 'within group' comparisons of data relating to the 10 'voluntary consolidators', comparisons of data from parent companies' accounts for 'consolidators' and 'non-consolidators', and an examination of the effects of consolidation on published data. Findings were mixed. There was some support for the hypothesis that the incidence of consolidation would be associated with the number of subsidiaries - but while Whittred saw this as supporting his 'agency costs'
argument, the same evidence could also be seen as supporting more simple propositions about the technical advantages of consolidated statements in communicating information to shareholders. It was not clear what evidence was the source of distinctions between 'owner controlled' and 'not closely held' companies but it appears that this was based on information reported about directors' shareholdings (rather than beneficial interests in shares, as is required in terms of contemporary corporations law). Other findings seems anomalous - particularly the finding that the 'voluntary consolidators' reported a significant increase in the ratio of secured debt to 'assets in place' (defined as book value of land, buildings and plant & equipment). The presence of debt secured by charges over real property does not readily fit arguments about the need for lenders to monitor the financial performance of a set of companies linked by share ownership.

Nevertheless Whittred (1987) concluded (with due warning that his results need to be viewed with caution) that the evidence was generally consistent with his hypotheses. The paper's abstract and introduction characterised these findings far more strongly: as demonstrating that contracting practices played an important part in the evolution of financial reporting, since consolidated reporting reduced agency costs. Of course, the entire analysis made assumption about the existence of lenders who were seeking consolidated data to monitor the firms' capacity to repay debt - a proposition which was itself questionable, in light of the evidence provided by the case studies reported in Whittred (1988).

The conclusions of Whittred's agency-theory based studies may be compared with findings from prior studies of the history of accounting practice in this area. A common theme of those studies was that regulation has played a role in encouraging the adoption of what was regarded as 'best practice'.

For example, Walker (1978) suggested that the introduction, acceptance and widespread adoption of consolidated statements in the UK as a means of reporting on the affairs of holding companies appear to have been 'responses to the inadequacy of customary procedures for asset valuation and revenue recognition to cope with inter­corporate shareholdings' (p. 113).

During the 1930s, consolidated statements came to be the preferred form of disclosure through a combination of factors: the enthusiasm for this form of reporting on the part of financial commentators, the well-publicised example of some large firms, and finally the intervention of the stock exchanges (p. 117).
On the other hand, Walker suggested that in the USA (unlike the UK where corporate reporting was closely regulated by the requirements of company law) the absence of regulatory constraints on corporate reporting prior to the 1930s 'may have been conducive to experimentation'. The introduction of tax legislation permitting the presentation of consolidated returns seems to have been a significant factor in widening the profession's awareness of consolidated statements (p. 220), since tax rules prompted an outpouring of material on the techniques of consolidation and led to an expansion of educational activities (p. 64). Support for the use of consolidated statements by banks came from the New York Stock Exchange which in 1919 introduced listing rules requiring the presentation of either consolidated statements or the separate statements of all 'constituent companies' (p. 210). Following the passage of the Securities Acts in the 1930s, the Securities and Exchange Commission (SEC) did not immediately promulgate formal rules requiring the inclusion of consolidated statements in documents filed for registration purposes, though it was suggested that the SEC may have been 'instrumental in extending the use of consolidated reports' through administration of its registration provisions (p. 242).

However, a distinction can be drawn between acceptance of the 'idea' of consolidation accounting (and preference for that form of disclosure), and widespread acceptance of the 'practice' (Bircher, 1988, p. 5).

Just as Whittred's (1986) study assembled evidence of Australian practice (much from secondary sources) in 1920, 1930-40 and 1953. Bircher reported on the use of consolidated statements in the years 1938-39, 1944-45 and 1947-48 by a sample of 40 British companies. However the two studies reached quite different conclusions about the factors shaping practice.

Bircher concluded that, while a consensus on the desirability of consolidation accounting developed in Britain in the 1930s (p. 6), there was a substantial gap between the authoritative literature and practice. He found that consolidation accounting was not widely adopted in Britain until the late 1940s, 'in the shadow of legislation to enforce more comprehensive dissemination of group accounting information by holding companies' (p. 12). While acknowledging other influences (primarily a 'substantial change in the perception of the nature of the shareholder' and changes in the nature of
the corporate economy in the UK in that period) Bircher emphasised that impending state regulation was the dominant factor.

More recent studies of practice in the preparation of consolidated statements have been concerned with proposals to require US consolidated statements to encompass all subsidiaries (including 'finance' subsidiaries) in the context of a new accounting regulation, FAS 94. It should be noted that these studies were undertaken in the context of regulatory requirements which allow the publication of annual reports only in consolidated form (not as reports to supplement the accounts of parent companies, as was the case in Australia and the UK). The stated aim of these studies was not to examine the impact of regulation on practice - but they do shed some light on these issues.

For example Mian & Smith (1990) focussed on the incentives faced by companies and their managers to report the operations of finance subsidiaries separately rather than include these financial statements in consolidated statements. They also addressed the FASB's argument that the non consolidation of finance subsidiaries was a device to keep debt off the parent company's balance sheet, by suggesting that 'if the off-balance sheet hypothesis is an important explanation for the use of unconsolidated financial reporting, then the use of unconsolidated financial subsidiaries would also be associated with the use of other forms of off-balance sheet financing' - notably operating leases and unfunded pension benefits. Finding no significant association, they claimed that this was contrary to the FASB's argument. Mian & Smith concluded that the greater the interdependencies (operating, financial and information) between the parent and its subsidiaries, the greater the likelihood that a firm would report its results on a consolidated basis. In summary, Mian & Smith found no support for the FASB's contention about opportunistic behaviour. Yet both the Whittred studies and Mian & Smith invoked notions of 'contracting' to suggest quite different kinds of consolidation practices - raising questions about the explanatory power of the 'contracting' arguments in relation to there adoption of this form of reporting.

On the other hand, another American study, by Heian & Thies (1989) found that the introduction of FAS 94 resulted in the disclosure of an additional $230 billion in finance subsidiaries' liabilities. The authors concluded that FAS 94 had a significant impact on the capital structure of many companies with finance subsidiaries and that this would have real economic consequences. They also concluded that their findings provide a basis 'for understanding the FASB's urgency in moving the consolidation of majority-
owned subsidiaries issue to the top of the reporting entity agenda'. Further they asserted that the relative lack of opposition to the FASB's proposed statement indicated that there was a perception that the changed accounting practice would produce net benefits.

On the face of it, and acknowledging that there may be differences in the legal circumstances of creditors in different countries and at different times, it appears that interests of lenders did not compel the companies examined by Heian & Thies (1989) to provide consolidated statements - as might have been expected in terms of the strong claims made by Whittred.

Certainly the literature appears far from settled regarding claims that the presence or otherwise of debt contracts may have influenced consolidation practices. Some of the arguments have been based on speculation, rather than evidence. For example, when authors have suggested that decisions to consolidate or not might be affected by existing debt contracts which could be costly to change, they were speculating both about the existence of debt contracts, and about the materiality of the costs of renegotiating those contracts.

Possibly underpinning these debates are conflicting views about the role of regulation in commercial affairs, and the role of theoretical ideas about accounting in shaping practice. Plainly regulation may affect accounting practice - and other factors, including contractual arrangements, and ideas about 'best practice' in accounting - may also affect how accounting reports are compiled and presented. There appears to be a tendency for researchers to emphasise evidence which supports their position - and to dismiss or disregard contrary evidence.

For example, Whittred (1986) indicated that in New South Wales there was a rise in the incidence of the publication of consolidated statements from 6.3% to 23.7% between 1943 and 1947, after the strengthening in 1946 of the Sydney Stock Exchange listing rules. This evidence in itself suggests that changes in the form of the regulatory requirements led to changes in accounting practice. Yet, while Whittred (1986) noted this change in Stock Exchange requirements, Whittred (1987) disregarded this evidence and attributed changes in practice to what were, in effect, little more than a series of speculations about possible contractual arrangements which may have established a need to monitor the performance of holding companies and subsidiaries in certain, unspecified ways.
3. HISTORY OF AUSTRALIAN REGULATORY REQUIREMENTS FOR THE PROVISION OF CONSOLIDATED STATEMENTS

A chronology of major regulatory developments encouraging or requiring the use of consolidated reports is presented in Table 1. Fuller descriptions (though there is some conflict between these accounts) of these events have been provided by Gibson (1971), Walker (1978) and Whittred (1986).

As already noted, it appears that the first reporting requirement which recognised the preparation of consolidated statements was issued by the New York Stock Exchange around 1919 (Walker, 1978, p. 196). During the mid 1920s, representatives of UK stock exchanges argued unsuccessfully that the preparation of consolidated statements as supplements to the accounts of holding companies should be mandatory - though members of a company law reform committee were unpersuaded (see Walker, 1978, pp. 69-75). However Australian stock exchanges were quick to extend their listing rules to promote (if not prescribe) the use of consolidated statements in the late 1920s. In 1927 the Melbourne Exchange's rules required supplementary disclosure of the separate accounts of subsidiaries, or aggregate statements encompassing (only) those subsidiaries. In 1928 the Sydney Exchange modified this rule to require supplementary disclosure of a statement aggregating the accounts of a holding company and its subsidiaries.

It appears that these Australian stock exchanges were influenced by arguments advanced in the UK about the desirability of fuller disclosures about the affairs of the holding companies, which were becoming a more common form of business organisation. The use of consolidated statements was comparatively rare. However in 1923, a lecture to members of The Institute of Chartered Accountants in England and Wales by Sir Gilbert Garnsey had publicised the use of 'aggregate' balance sheets: Garnsey's lecture was reprinted at length in The Accountant (Garnsey, 1923a), and formed the basis of the first UK text on the subject (Garnsey, 1923b). British accounting texts and journals were distributed in Australia, and The Accountant in turn occasionally included references to the accounting practices of Australian companies. Moreover, articles from UK accounting magazines dealing with consolidated statements were frequently reprinted in local journals, notably the Commonwealth Journal of Accountancy, and The Public Accountant. A review of later contributions from Australian authors to the debate about the merits of the use of consolidated statements
(see, eg, Nixon, 1928, Caldwell, 1929) clearly indicates that the earlier British literature was influential on Australian practitioners.

Whittred reported that the listing rules of the Sydney Stock Exchange were 'realigned' in 1936 with those of the Melbourne Exchange (Whittred, 1986, p. 105) - in effect, eliminating the 'consolidation' option in favour of the presentation of a set of consolidated statements encompassing a holding company's subsidiaries (but excluding the parent). While no studies have recorded the impact of this change on reporting practices, it is apparent that soon afterwards, in 1938 the Victorian Companies Act was amended to prescribe that holding companies prepare group accounts - which were to take the form of either of the options prescribed by the Sydney Exchange for the past 10 years ie separate statements of subsidiaries, or a consolidated statement encompassing holding company and subsidiaries. In 1941, the two Exchanges then reverted to the approach initially adopted by the Sydney Exchange in 1928 - requiring companies to provide either the separate statements of subsidiaries, or consolidated statements encompassing both parent and subsidiaries.

The 1938 Victorian Companies Act was the first Australian statute to require the presentation of group accounts, which were usually presented as consolidated statements, although under certain circumstances separate statements of subsidiaries could be supplied in lieu. Other states followed, with Western Australia and Tasmania copying the Victorian approach in 1943 and 1959 respectively. Later, at the initiative of the Commonwealth government, all Australian states agreed to adopt uniform companies legislation and 1961 saw the universal adoption of requirements for holding companies to provide supplement their accounts with a set of 'group accounts' which continued to include the options of separate statements of subsidiaries, a consolidated statements encompassing subsidiaries, or the preparation of consolidated statements encompassing parent and subsidiaries - the options first set out by the Melbourne and Sydney Stock Exchanges in 1927 and 1928.

Strong encouragement for the use of consolidated statements in annual reports was provided in a round about way by amendments to listing rules in 1966 which required 'notices' to the market to include the following information:
<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1925</td>
<td>Sydney and Melbourne Stock Exchanges required listed companies to provide Balance Sheets and Profit and Loss Accounts of subsidiaries as supplements to the reports of holding companies.</td>
</tr>
<tr>
<td>1927</td>
<td>Melbourne Stock Exchange allowed the options of either presenting separate accounts of subsidiaries, or aggregate statements for subsidiaries, as supplements to the reports of holding companies.</td>
</tr>
<tr>
<td>1928</td>
<td>Sydney Stock Exchange also allowed use of aggregate statements 'of the company and subsidiaries' in lieu of separate statements of subsidiaries.</td>
</tr>
<tr>
<td>1936</td>
<td>Victorian Companies Act required 'group accounts' (usually presented as consolidated statements, but could take the form of separate financial statements of subsidiaries).</td>
</tr>
<tr>
<td>1941</td>
<td>Sydney and Melbourne Stock Exchanges listing rules amended to require newly listed companies to present supplementary consolidated statements or separate statements for subsidiaries.</td>
</tr>
<tr>
<td>1946</td>
<td>Listing rules became more authoritative as listed companies were required to sign a 'form of agreement' to abide by existing listing rules. ICAA issued 'Disclosure of the Financial Position and Results of Subsidiary Companies in the Accounts of Holding Companies'. Recommending use of consolidated statements 'or any other form [of presentation] as will enable the shareholders to obtain a clear view of the financial position and earnings of the group as a whole'.</td>
</tr>
<tr>
<td>1954</td>
<td>Listed companies required to abide by listing rules which may be introduced in future years. ASA issued 'Notes on the Preparation of Consolidated Statements' (without formally recommending the preparation of this form of report or conflicting with 'statutory provisions or stock exchange regulations as they now stand').</td>
</tr>
<tr>
<td>1961</td>
<td>Australian Uniform Company Laws required holding companies to prepare group accounts covering all subsidiaries. Group accounts could take the form of consolidated statements, separate statements of subsidiaries, or a combination of consolidated statements and separate statements.</td>
</tr>
<tr>
<td>1966</td>
<td>Australian Associated Stock Exchanges required listed companies to provide notices of annual results in consolidated form.</td>
</tr>
<tr>
<td>1973</td>
<td>Australian Associated Stock Exchanges required annual accounts to be in consolidated form (unless alternative presentation approved by the Exchange).</td>
</tr>
<tr>
<td>1990</td>
<td>Australian accounting profession issued accounting standard, AAS 24 'Consolidated Financial Statements'.</td>
</tr>
<tr>
<td>1991</td>
<td>Australian Accounting Standards Board issued AASB 1024 'Consolidated Accounts' which (in terms of the 1991 Commonwealth Corporations Law) made the publication of consolidated statements mandatory for all companies which were parent entities in an economic entity which was a reporting entity.</td>
</tr>
</tbody>
</table>
the consolidated net trading results and provisions for depreciation and taxation and final net profit or loss of the company and of the company and its subsidiaries for each financial year (with comparison with the corresponding figures of the last preceding financial year) and stating whether such final result is audited or subject to audit (AASE, 1966, p. 26).

This was, in effect, the first formal stock exchange listing rule to require consolidated reporting - prior rules had only related to annual reports, and had permitted holding companies to adopt a range of techniques in reporting on their investments in subsidiaries. It was reiterated in subsequent revisions, though later rules referred to these notices as 'preliminary final statements' (eg AASE 1973, p. 67). By 1973 the AASE formally prescribed that published accounts shall be in consolidated form, 'unless otherwise approved by the Exchange' (AASE, 1973, p. 70).

To complete the chronology of regulatory provisions, reference must also be made to the activities of the accounting profession. Contributions to professional journals had included advocacy of the publication by holding companies of consolidated statements (eg Webster Jenkinson, 1929) but it was not until 1947 that a professional body issued guidelines regarding consolidated statements. In 1946 The Institute of Chartered Accountants published five 'Recommendations on Accounting Principles'. One of these was entitled 'Disclosure of the Financial Position and Results of Subsidiary Companies in the Accounts of Holding Companies'. The text was virtually identical to a Recommendation published in 1944 by The Institute of Chartered Accountants in England and Wales. It described three methods of disclosing 'supplementary information' about holding companies: to submit copies of the accounts of each of the subsidiary undertakings, to submit statements of the consolidated assets and liabilities and of the aggregate earnings of the subsidiary undertakings as distinct from those of the holding company, and to submit a consolidated balance sheet and consolidated profit and loss account of the holding company and of its subsidiary undertakings 'treated as one group'.

In 1956, some ten years after the Institute had issued some guidelines on the subject, the Australian Society of Accountants issued a statement entitled 'Notes on the Preparation of Consolidated Statements'. In the preamble the Society reported that the Notes had been prepared in response to the increased practice of presenting consolidated statements. The objective of the Notes was to codify the main principles involved in preparing these reports.
There were no further pronouncements from the accounting profession on the subject of consolidation reporting in the 1950s, 1960s or 1970s, though the Australian Society of Accountants prepared an exposure draft, 'Consolidated financial statements and the practices of de-consolidation and non-consolidation' around 1969 (see The Australian Accountant, November 1969). While never publicly released, this exposure draft argued that partial consolidations or other forms of presentation failed to provide a 'true and fair view', and that full consolidated statements should be made compulsory. However it was not until 1987 that the accounting bodies jointly formally published an exposure draft on the subject, leading later to the issue of an accounting standard AAS 24 'Consolidated financial statements' in 1990. By this time, standards issued by the accounting profession were of somewhat greater authority, both because they were less permissive and more tightly drafted, and because the ethical requirements of the profession obliged members to comply with professional standards. However professional standards in turn were of lesser authority than standards issued by the Australian Accounting Standards Board, whose pronouncements effectively constituted regulations to the Commonwealth Corporations Law, and were mandatory. The profession's standard AAS 24 was soon reissued in slightly amended form by the Australian Accounting Standards Board as AASB 1024 'Consolidated accounts' (1991). AASB 1024 formally made the preparation of consolidated statements mandatory for all firms which were subject to those standards. In the language of AASB 1024, it applied to all companies 'which were parent entities of an economic entity deemed a reporting entity'. AASB 1024 also followed the USA's lead by removing the option of excluding so-called finance subsidiaries from the ambit of consolidation.

The issue of AASB 1024 also marked the end of the approach (pioneered by Australian stock exchanges in the 1920s and formally adopted in the Victorian Companies Act of 1938 and in legislation subsequently enacted in other states) of presenting 'group accounts' in different forms: either as a single set of consolidated statements, the presentation of separate financial statements of subsidiaries, the presentation of a consolidated statements encompassing subsidiaries (without the parent company), or through some combination of separate statements and consolidated statements. Further, the issue of AASB 1024 ensured that Australian parent companies with subsidiaries were required to present a consolidated statement encompassing all controlled entities - including unincorporated entities such as trusts.
From this examination of the history of regulatory requirements in Australia, it is clear that provisions relating to the preparation of consolidated statements were successively introduced and modified for decades before this form of reporting finally became mandatory in 1991. There has been a progression in regulatory requirements, in terms of (a) the narrowing of the options for modes of reporting, (b) the companies and entities those requirements have affected, and (c) the strength or authority of the regulatory requirements themselves.

In relation to the authority of regulatory requirements, it is emphasised that the successive provisions of Victorian, Western Australian, Tasmanian Companies Acts, and finally the 'uniform' legislation of 1961, did not formally prescribe the presentation of consolidated statements. Consolidation was only an available option.

Further, it must be recognised that stock exchange listing rules were of lesser coverage and lesser authority than statutory requirements. As discussed in Gibson (1971) and Whittred (1986), the listing rules of the Exchanges initially only applied to companies which signed them on admission to listing - and even for those companies, were not strongly enforced. The 1946 amendments somewhat strengthened the authority of listing rules, by requiring companies to undertake to abide by the rules in force at the time of their admission to the list. It was not until 1954 that the rules of the Sydney and Melbourne exchanges were amended to require companies to abide by not only the rules in force at the time of their listing, but to any subsequent amendments.

Against this background, a central concept in Whittred's analysis of factors shaping accounting practices was his identification of certain regulatory provisions as the first requirements for this form of reporting, and consequently his assertions that some firms had voluntarily introduced consolidated reporting, before those so-called requirements were introduced.

Whittred asserted that

a consolidation requirement did not appear in N.S.W. until the 1941 revision of the Sydney Stock Exchange Listing requirements - and again it appeared as an option (1986, p. 106).

Now the 1928 Listing Rules of the Sydney Exchange had required the preparation of 'aggregate' financial statements encompassing a holding company and subsidiaries - in substance, the same requirement as embodied in the 1941 listing rules, even though the
former did not use the term 'consolidated' or 'consolidation'. The significance of these 1928 requirements had previously been noted by Gibson (1971) and Walker (1978), both cited by Whittred (1986).

Possibly Whittred was diverted by the changing terminology. Yet in the 1920s, the terms 'consolidated statement' and 'combined statement' and 'aggregate statement' were used as synonyms - with the latter term being used in Garnsey (1923), and in 1925, in submissions to the Greene Company Reform Committee during its deliberations (see Walker, 1978). Gibson (1978) had also described the early presentation of 'aggregate' financial statements by several Australian companies in 1932-1936 and had attributed these presentations to the efforts of the Sydney and Melbourne exchanges to secure improve reporting by listed companies (p. 76). Indeed, Whittred (1988) included a case study of a 'voluntary' consolidation in which the reporting entity had provided an 'aggregate' balance sheet and profit and loss account. (p. 169).

Further, Whittred claimed that


Yet, strictly, the 1961 NSW legislation did not prescribe the preparation of consolidation for NSW-incorporated companies: it merely prescribed the preparation of 'group' accounts. Group accounts could take a variety of forms, of which the presentation of consolidated statements became the most popular.

4. **RESEARCH DESIGN: INFLUENCE OF REGULATION**

Instead of seeking evidence which fits an arbitrary definition of 'voluntary consolidation', this study treats changes in regulation as occurring in a continuum, ranging from rules which were persuasive only, to rules which were both mandatory, enforceable, and subject to sanctions established by government legislation.

Other differences in approach relate to the selection of observation periods and the choice of evidence. Whereas Whittred looked at reporting practices of a sample of firms at three intervals (calendar years 1920, 1930-40 and 1953), this study set out to examine the reporting practices of the entire population of non-mining listed companies as at 1 January 1958 - a total of 779 firms. The 1958 date was chosen to precede the
1961 changes in the NSW Companies Act which introduced requirements for the preparation of 'group accounts', and hence encouraged the use of consolidation accounting by listed companies with subsidiaries. The uniform companies legislation did not take effect until July 1962. In the light of claims by Bircher (1988) that discussion of pending UK legislation influenced UK reporting practices in the use of consolidation accounting, the choice of the 1958 date was intended to allow the observation of reporting practices before any such influences took effect.

As outlined in Table 2, the analysis proceeded in four steps. For each step, information was obtained from a variety of sources. The sources used for the collection of data on individual companies were the microfiche copies of the annual reports of listed companies, produced by the Australian Graduate School of Management, University of New South Wales, and the files maintained by the Sydney Stock Exchange on individual companies. As well the Sydney Stock Exchange Gazette was used to determine the listing dates of companies. Jobson’s Year Book was used to determine the place of registration of companies to establish their legislative incentives to consolidate. Jobson’s Year Book was also used in later stages of this study to identify the timing of new issues of either stock or debt, which may have influenced a company's listing status.

Step 1 involved determining which of the 779 listed companies were holding companies at 1 January 1958, or acquired subsidiaries shortly afterwards, and so were in a position to prepare consolidated statements. This review identified 182 companies with no subsidiaries. The reporting practices of the remaining companies were examined over the period 1958-64, in order to identify companies which switched to consolidation in the face of the 1961 changes in statutory requirements. It was found that of the total of 597 companies identified as having subsidiaries at 31 January 1958 or thereafter during the review period, 23 were not consolidating in 1958 but either sold their subsidiaries or were themselves reduced to subsidiary status after a successful takeover bid. That produced a reduced sample of 574 companies which were 'potential consolidators'. Of these it was noted that 38 companies were not holding companies in 1958, but both acquired subsidiaries during the review period and thereafter produced consolidated statements. As such they could be regarded as having consolidated under a 'regulatory influence', but since they did not have a choice of 'voluntarily consolidating' at an earlier date, were excluded from subsequent analysis, to provide a reduced pool of 536 listed companies which were 'potential consolidators' in 1958.
Step 2 examined the place of incorporation of these 536 companies. As indicated in Table 1, several Australian states had previously enacted company laws requiring the preparation of group accounts, and these requirements were usually met by the preparation of consolidated statements. Given the aim of assessing the impact of regulation on the companies listed on the Sydney Stock Exchange, and having regard to the likely impact that the 1961 amendments to the NSW Companies Act may have had on reporting practices this step was aimed at ensuring that the sample only contained companies which were incorporated in the state of New South Wales. It was found that no less than 117 (22%) of these companies were incorporated in jurisdictions which already prescribed the use of consolidation accounting. Most were incorporated in Victoria (111), with the other six incorporated in Tasmania, Western Australia, England, or New Zealand.

Step 3 involved the identification of when the remaining 419 'potential consolidators initially used consolidated statements. If they began consolidating during the review period 1958-64, it was reasonable to conclude immediately that they had done so in response to the changes embodied in the 1961 uniform Companies Acts enacted throughout Australia: they could be categorised as 'regulatory influenced' rather than 'voluntary consolidators'. Analysis indicated that, of the 419 companies, 330 (79%) began consolidating prior to 1958, and 83 (20%) began consolidating in response to changes in company law, while 6 (1%) produced separate statements for subsidiaries rather than consolidated statements.

That is, one in five of all companies that were technically in a position to adopt consolidated accounting but were not legislatively required to do so did not consolidate until influenced by statutory requirements introduced in 1961\(^2\). However that is not to say that the 79% of companies which began consolidating earlier were 'voluntary consolidators', since listed companies were expected to comply with Stock Exchange listing rules (though as indicated above, these were not regarded as authoritative until later years).

Hence in Step 4 further analysis was undertaken of the dates on which companies were first listed on Australian stock exchanges. For this purpose the listing dates were grouped in bands, corresponding with changes in stock exchange listing rules relevant to the application of consolidation accounting:

\(^2\) Those companies which had subsidiaries at 1958 but chose not to consolidate have been excluded from these calculations.
<table>
<thead>
<tr>
<th>Year of initial listing</th>
<th>Regulatory requirements</th>
<th>Classification of companies if began consolidating:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>before 1958 after 1958</td>
</tr>
<tr>
<td>Pre 1928</td>
<td>No regulatory requirements</td>
<td>Voluntary consolidator influenced</td>
</tr>
<tr>
<td>1928-1940</td>
<td>1928 Sydney Stock Exchange listing rule 'encouraged' consolidation</td>
<td>Voluntary consolidator influenced</td>
</tr>
<tr>
<td>1941-1946</td>
<td>After stock exchanges encouraged consolidation, but before listing rules strengthened, and before ICAA issued recommendations. Compliance with listing rules virtually optional.</td>
<td>Regulatory influenced</td>
</tr>
<tr>
<td>Post 1946</td>
<td>After listing rules strengthened and became applicable to all listed companies.</td>
<td>Regulatory influenced</td>
</tr>
</tbody>
</table>

The findings from this analysis are presented in Table 2, while Table 3 disaggregates the data further to indicate the place of incorporation of the companies which published consolidated statements.
**Table 2**

**INFLUENCE OF STATUTORY AND OTHER REGULATORY REQUIREMENTS ON CONSOLIDATION PRACTICES OF COMPANIES LISTED ON THE SYDNEY STOCK EXCHANGE AT 31 JANUARY 1958**

<table>
<thead>
<tr>
<th>Regulatory event:</th>
<th>Vic Companies Act established consolidation as an option</th>
<th>Sydney &amp; Melbourne Stock Exchanges introduced consolidation option</th>
<th>WA Companies Act aligned with Vic Stock Exchanges strengthened listing rules, ICAA issued 'Notes on consolidation'</th>
<th>ASA issued recommendations</th>
<th>Tas Companies Code aligned with WA &amp; Vic Uniform Companies Code included consolidation option</th>
<th>Aust Assoc Stock Exchange requires consolidated reports of results</th>
<th>Accounting profession issued AAS 24 requiring consolidated statements</th>
</tr>
</thead>
</table>

**Population examined**

All non-mining companies listed on Sydney Stock Exchange 1 January 1958

<table>
<thead>
<tr>
<th>Step 1</th>
<th>Determine holding company status during review period (1958-64)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Companies with no subsidiaries</td>
</tr>
<tr>
<td></td>
<td>Holding companies 1958 but status changed*</td>
</tr>
<tr>
<td></td>
<td>(potential consolidators)</td>
</tr>
<tr>
<td></td>
<td>182</td>
</tr>
</tbody>
</table>

**Step 2**

Exclude companies already publishing consolidating statements in 1958 in compliance with interstate or foreign legislative requirements

<table>
<thead>
<tr>
<th>Step 2</th>
<th>Companies not subject to any legislative requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Companies incorporated in Vic, WA, Tas, England or NZ</td>
</tr>
<tr>
<td></td>
<td>Companies acquiring subsidiaries and consolidating during review period</td>
</tr>
<tr>
<td></td>
<td>regulatory influenced</td>
</tr>
<tr>
<td></td>
<td>119</td>
</tr>
</tbody>
</table>

**Step 3**

Identify when potential consolidators initially used consolidated statements

<table>
<thead>
<tr>
<th>Step 3</th>
<th>Began consolidating before 1958 period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Began consolidating during review period</td>
</tr>
<tr>
<td></td>
<td>Presented separate statements for subsidiaries</td>
</tr>
<tr>
<td></td>
<td>330</td>
</tr>
</tbody>
</table>

**Step 4**

Examine listing dates of consolidating companies

<table>
<thead>
<tr>
<th>Step 4</th>
<th>40 pre 1928 voluntary consolidators</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15 1928-41 regulatory influenced</td>
</tr>
<tr>
<td></td>
<td>8 1941-46 regulatory influenced</td>
</tr>
<tr>
<td></td>
<td>267 post 1946 regulatory influenced</td>
</tr>
<tr>
<td></td>
<td>54 pre 1941 regulatory influenced</td>
</tr>
<tr>
<td></td>
<td>4 1941-46 regulatory influenced</td>
</tr>
<tr>
<td></td>
<td>25 post 1946 regulatory influenced</td>
</tr>
</tbody>
</table>

* either sold subsidiaries or were themselves taken over during review period 1958-64
Table 3

ANALYSIS OF LISTING DATES OF POTENTIAL CONSOLIDATORS

<table>
<thead>
<tr>
<th>Listing dates</th>
<th>Began consolidating during review period</th>
<th>Began consolidating before 1958</th>
<th>Totals</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>NSW</td>
<td>Other</td>
</tr>
<tr>
<td>Pre 1941</td>
<td>54</td>
<td>49</td>
<td>6</td>
</tr>
<tr>
<td>1941-1946</td>
<td>4</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Post 1946</td>
<td>25</td>
<td>245</td>
<td>22</td>
</tr>
<tr>
<td>Totals</td>
<td>83</td>
<td>301</td>
<td>29</td>
</tr>
</tbody>
</table>

* Excludes six companies which chose to present separate statements for subsidiaries

5. FINDINGS REGARDING THE INFLUENCE OF REGULATION

The findings as set out in Table 2 indicate that regulations affecting the preparation of consolidated statements has been progressively more prescriptive and authoritative over time. Further, the evidence indicates that the wider adoption of consolidation accounting has been associated with changes in statutory and other forms of regulation.

Of the 574 companies which were holding companies in the period 1958-64, only 55 (9%) could be identified as having voluntarily adopted consolidation accounting in the absence of any regulatory requirement to do so. Of these, 40 (7%) were listed before the release of the 1928 Stock Exchange listing rule encouraging consolidation. On the other hand, 91% of the companies eligible to use consolidated statements appear to have only done so in response to regulatory requirements of some form.

The findings also indicate that compliance with regulatory requirements was affected by the authority of those requirements. As Stock Exchange listing rules shifted from a voluntary code of practice to a set of mandatory requirements, so too did the degree of compliance with those regulations. Of the companies which were consolidating prior to 1958, 83% were listed after 1941 (when the Stock Exchanges encouraged reporting via consolidated statements) and 81% were listed after 1946 when the listing rules were strengthened.
To assess whether the authority of regulatory requirements influenced practice, an analysis was undertaken of the dates on which companies which were first-time consolidators after 1958 were first listed on a Stock Exchange.

Of the 83 companies which first consolidated after 1958, 54 had been listed since before 1941, when the Sydney Stock Exchange first introduced a listing rule requiring companies to either provide consolidated statements or to provide separate statements for its subsidiaries. It had taken more than fifteen years for these companies to elect to use consolidated statements. These companies only started presenting consolidated statements when it was clear that this form of reporting practice would be prescribed by forthcoming changes in company laws.

Further, legislative requirements were plainly more authoritative than the listing rules. No less than 83 companies in a pool of 419 which were not operating under any statutory requirements to consolidate but which were eligible to do so - around one in five - did not do so until after 1958, in the face of changes in company law. Of the companies which switched to consolidation during the review period 66% of them were listed before 1941 and 70% of them were listed before 1946 when compliance with stock exchange regulations was at best a matter of honour.

In terms of the total number of companies that were potential consolidators, switching companies (i.e., those companies which had been eligible to consolidate before the review period but which in fact did not begin to until the review period) represented 49.5% of companies listed before 1941 when stock exchange requirements to consolidate were first introduced. They represented 38.5% of companies listed between 1942 and 1946 when compliance with stock exchange regulations were at best a matter of honour but they represent only 8.5% of companies listed after 1947 when companies were required to sign a form of agreement indicating that they would comply with Stock Exchange listing requirements.

A further examination of those companies listed before 1941 showed that in fact 40 of them that is 72% were listed before 1928 when the Sydney Stock Exchange had first allowed the use of 'aggregate' statements in lieu of separate statements of subsidiaries. Of those companies listed before 1941, 9 (16%) had some sort of capital reorganisation or debt issue (either in the year of consolidation or the year immediately preceding it) that may have resulted in their having to comply with stock exchange listing requirements. This evidence though is not conclusive. Interestingly these companies
without exception did not begin to consolidate their accounts until after 1946. Four of these consolidated in the first year that they were holding compania, and six consolidated for the first time after very large increases in their holdings in subsidiaries.

6. ALTERNATIVE HYPOTHESES CONCERNING INCENTIVES FOR CONSOLIDATION

As indicated above, Whittred (1886, 1987) dismissed the significance of regulation as a factor encouraging consolidation, and suggested that the primary factor driving the wider use of consolidation accounting was a response to private contracting between companies and their debt holders to minimise agency costs. The wider use of consolidated statements was attributed to the increasing reliance of listed companies on debt, and it was inferred that the very existence of higher levels of debt meant that there were contractual arrangements which might have included requirements for the preparation of consolidated statements.

However the findings already presented in this paper constitute quite strong evidence that regulation (and the strength of individual sources of regulation) have influenced the use of consolidation accounting by Australian companies. This section addresses the alternative argument that the dominant influences shaping consolidation practices were the monitoring arrangements established by debtholders. It relies on evidence obtained from primary sources - including data obtained from a direct examination of the balance sheets of listed companies around the time that they first published consolidated statements. Particular attention was directed to the nature of the 'debt' reported by those companies, and whether the evidence adequately supports the assumptions made by Whittred that high levels of debt can be equated with the existence of contractual and monitoring arrangements by debtholders.

From the analysis summarised in Table 1, only companies listed before 1928 could be correctly classified as 'voluntary consolidators', adopting that reporting practice free of any regulatory influence. However for the purpose of the secondary analysis reported in this section, companies were classified as 'voluntary consolidators' if they adopted consolidation accounting as an option if they were listed prior to 1941, before the Stock Exchange listing rules were strengthened. That enabled the identification of two groups of companies (a) those that were 'voluntary consolidators' (in terms of the pre-1941 listing test), and (b) those that did not adopt consolidated accounting until the review
period, under the influence of the Uniform Companies Code. This classification ensures that the analysis which follows covers the same time periods examined by Whittred (1986, 1987), albeit using different sources of data for information about the debt characteristics of companies around the time that they initially adopted consolidation.

This analysis adopts an approach similar to that used by Whittred to assess the role that debt contracts may have played in shaping practice. Whittred examined characteristics of groups of companies he termed 'voluntary consolidators', and contrasted them with other companies which had not adopted consolidation accounting.

The findings outlined in Table 1 of this paper is used to re-classify companies into the following groups: (a) those companies that did not adopt consolidated accounting until they were influenced by the adoption of the Uniform Companies Code (and began consolidating during the review period), comprising 83 companies and (b) those which were 'voluntary consolidators'. The examination of regulatory changes indicates that strictly, only companies listed before 1928 can be properly classified as companies which 'voluntarily' consolidated. However for the purpose of examining the debt characteristics of companies when they initially published consolidated statements, a 'pre-1941' date is used to categorise companies as voluntary consolidators for the purpose of further examining alternative arguments about factors shaping consolidation practice. Regulatory requirements before 1941 were considerably weaker than those in force after that date, but the primary purpose of using this data was to re-examine the circumstances of companies during the same periods examined in Whittred's studies.

This paper has already shown that regulation and indeed the strength of regulation has had a significant impact on the adoption of consolidated accounting by Australian Companies. Having established that regulation has indeed had a significant role in the adoption of consolidated accounting, this paper will now look at the role that debt may have played. To do this it will examine the two groups of companies established as voluntary consolidators and regulatory influenced consolidators to determine if there are any differences in their debt profiles.

It has already been noted that Whittred's studies did not actually examine debt contracts. The presence of debt contracts containing cross guarantees was inferred from changes in the gearing of listed companies and the extent of ownership of subsidiary companies.
The approach adopted here is to examine characteristics of the set of companies which 'voluntarily' adopted consolidation accounting, and to compare them with characteristics of companies which had only adopted consolidation accounting in response to regulatory requirements. It is applied to a more systematically selected set of companies falling within these two groups.

Whittred's analysis would suggest that the level of debt amongst 'voluntary consolidators' would be different from that found amongst companies which only adopted consolidation in response to regulation. Voluntary consolidators had responded to an incentive. For example a company which had very low levels of debt compared to equity would not be likely to face a large incentive to consolidate in response to the needs of debtholders compared to one that had high debt levels and was therefore more dependent on debt. This suggests the following hypothesis:

**H1:** That the level of debt of voluntary consolidators was no different from that of regulation influenced companies which published consolidated statements.

The companies' reports were then further examined to determine whether there was any relationship between the type of debt held and their consolidation status. Under Whittred's positive incentives scenario it would be expected that companies carrying unsecured long term debt, would be more likely to consolidate. There could be a greater incentive for debtholders who do not have some sort of collateral protection to demand monitoring activities from the shareholders of a firm. Conversely those creditors who have security do not require any further accounting or indeed would not require any constraints on the company. There is no incentive for the introduction of costly monitoring activities in this instance. One would expect therefore that companies carrying a larger proportion of unsecured debt would be more likely to be susceptible to debt-holder pressure to supply consolidated statements. The existence of borrowings from subsidiaries might be especially likely to encourage debtholders to seek the establishment of monitoring arrangements which would examine consolidated data. Four testable propositions emerge from this:

**H2:** That the presence of Overdrafts and Consolidating status was independent
H3: That the presence of Loans on Mortgage and Consolidating status was independent

H4: That the presence of Loans from Subsidiaries and Consolidating status was independent

H5: That the presence of Unsecured Notes and Debentures in the balance sheet of the parent company was independent of Consolidating status

TESTING OF HYPOTHESES AND FINDINGS

The first hypothesis was tested by measuring levels of debt for companies in the two categories, voluntary consolidators and regulatory-influenced companies as identified in the previous section. Debt was taken to be inclusive of provisions. The data were taken from the accounts of parent companies in the year in which they first published consolidated statements. The debt measures used were as follows:

- Total debt/equity
- Long term debt/equity
- Long term debt & bank overdraft/equity

Traditional debt/equity ratios were chosen as measures of levels of debt because the intensity of incentives to adopt consolidated accounting might be supposed to be related to the relative positions of debt and equity as stakeholders (rather than an absolute level of debt). In terms of Whittred's chosen agency theory framework, it seems more appropriate to suppose that the more highly geared a company, the more likely it would be subjected to pressure to provide consolidated statements. This is in contrast to Whittred's (1987) study in which 'leverage' and a measure representing the proportion of wholly owned subsidiaries were employed as proxies for the presence of cross-guarantees, as the author was not always able to establish 'unambiguously the existence of cross-guarantees' (Whittred, 1987, p. 271).

The sample sizes have been reduced in both cases. Of the set of 83 'regulation influenced' companies (ie. those companies that switched to consolidation as a result of the proposed 1961 Companies Act), data were unavailable for four companies and one banking company was omitted, because bank financial statements were then highly abbreviated, and also because the gearing of banks means that their capital structure could not reasonably be compared with other companies in the sample. This left a
sample size for the ‘regulation influenced’ companies of 78. For the 55 ‘voluntary consolidators’ (here, those companies listed before 1941 but which began consolidating before 1958) five companies were omitted as they were pre-1941 consolidators. These companies are special cases in that they became consolidators before there was any Australian regulatory imperative. They are therefore not relevant in terms of the specific testing being done here. Six companies were also omitted because data were unavailable and two banking companies were omitted for the reason outlined above. This left a sample size for the ‘voluntary consolidators’ (using Whittred’s definition of voluntary reporting) of 42 firms.

Table 4

<table>
<thead>
<tr>
<th></th>
<th>Regulation Influenced Consolidators Mean</th>
<th>Voluntary Consolidators Mean</th>
<th>t scores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Debt / Equity</td>
<td>.8115</td>
<td>.5637</td>
<td>1.2265</td>
</tr>
<tr>
<td>Long Term Debt / Equity</td>
<td>.2718</td>
<td>.1249</td>
<td>1.1695</td>
</tr>
<tr>
<td>Long Term Debt &amp; Overdraft / Equity</td>
<td>.333</td>
<td>.2463</td>
<td>.6780</td>
</tr>
</tbody>
</table>

Critical t score with α at .01 and df 118 is -2.617< t <2.617

The results as shown in Table 4 indicate that the hypothesis of ‘no difference’ is strongly supported. The t scores are well within the acceptance range and thus the hypothesis that there is no difference between the debt levels of voluntary consolidators and those of regulation influenced consolidators is supported. In fact, in terms of two out of the three measures used, ‘regulation influenced’ companies actually had higher levels of debt than ‘voluntary consolidators’. This was contrary to the agency argument (outlined above) which suggests that the reverse should have applied.

The same test was then performed to compare the debt levels of ‘regulation influenced’ companies in the year of consolidation and in the year immediately prior to consolidation. The findings reported in Table 5 indicate that there was no significant difference in debt/equity ratios between those years.
Table 5

COMPARISONS OF DEBT LEVELS:
‘REGULATION INFLUENCED’ CONSOLIDATORS

<table>
<thead>
<tr>
<th></th>
<th>Year of consolidation Mean</th>
<th>Year prior to Consolidation Mean</th>
<th>t score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total debt / equity</td>
<td>.8115</td>
<td>.7756</td>
<td>.9624</td>
</tr>
<tr>
<td>Long term debt / equity</td>
<td>.2718</td>
<td>.2403</td>
<td>.2342</td>
</tr>
<tr>
<td>Long term debt &amp; overdraft / equity</td>
<td>.333</td>
<td>.3281</td>
<td>.0551</td>
</tr>
</tbody>
</table>

Critical t score with $\alpha$ at .01 and df 154 is $-2.576 < t < 2.576$

TYPES OF DEBT

The nature of reported debt was examined in some detail, since only some types of debt are likely to give rise to monitoring arrangements (let alone arrangements likely to involve the use of consolidated data).
Table 6

TYPES OF DEBT HELD

<table>
<thead>
<tr>
<th>Type of Debt</th>
<th>Regulation influenced consolidators</th>
<th>Voluntary consolidators</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>n = 78</td>
<td>n = 42</td>
</tr>
<tr>
<td>Overdrafts</td>
<td>19</td>
<td>8</td>
</tr>
<tr>
<td>Secured overdrafts</td>
<td>29</td>
<td>19</td>
</tr>
<tr>
<td>No overdrafts</td>
<td>30</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>78</td>
<td>42</td>
</tr>
<tr>
<td>Loans on mortgage</td>
<td>25</td>
<td>14</td>
</tr>
<tr>
<td>No loans on mortgage</td>
<td>53</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>78</td>
<td>42</td>
</tr>
<tr>
<td>Debt owing to subsidiaries</td>
<td>35</td>
<td>18</td>
</tr>
<tr>
<td>No debt to subsidiaries</td>
<td>43</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>78</td>
<td>42</td>
</tr>
<tr>
<td>Unsecured notes</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>Debentures</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>No debentures or unsecured notes</td>
<td>47</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td>78</td>
<td>42</td>
</tr>
</tbody>
</table>

Table 6 shows the results of this analysis. Whereas Whittred had assumed that high leverage was a proxy for the existence of cross-guarantees, the evidence obtained from inspection of the balance sheets of first-time consolidators show that the most common form of borrowings was through secured loans. The results from testing the four hypotheses suggested in the previous section are shown in Table 7.
The only hypothesis that was not accepted is that relating to unsecured notes and debentures. The chi square test indicates that there is a relationship between the existence of unsecured notes and debentures and the consolidating status of the company. However, contrary to what might have been expected in light of Whittred's arguments, the findings were that the companies which had issued unsecured notes or debentures were more likely to be the 'regulation influenced' consolidators. In other words (and contrary to Whittred's conclusions) these companies were more likely than others to have not voluntarily published consolidated statements, but to have waited until there was a regulatory requirement before adopting that practice.

A preliminary investigation was undertaken to assess whether there had been material changes in the nature of borrowings during the observation period of 1955-1965. The period 1955 to 1965 was partitioned into two five year phases and the balance sheets of companies which first consolidated in those two phases (irrespective of whether they were voluntary consolidators or not) were compared. This information is shown in Table 8.
Table 8
Debt instruments issued by listed companies

<table>
<thead>
<tr>
<th></th>
<th>Unsecured notes</th>
<th>Debentures</th>
<th>No debt instruments</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955-60</td>
<td>14</td>
<td>4</td>
<td>28</td>
<td>46</td>
</tr>
<tr>
<td>1961-65</td>
<td>10</td>
<td>5</td>
<td>31</td>
<td>46</td>
</tr>
</tbody>
</table>

The formal hypothesis examined was:

**H6: That the incidence of borrowings through Unsecured Notes and Debentures was independent of the time periods 1955-60 and 1961-65.**

The results in Table 9 indicate that presence of Unsecured Notes and Debentures in the Balance Sheet of a company is consistent with that hypothesis - and does not support Whittred's claims that the progressive use of consolidated statements reflected changes in the pattern of borrowings by firms during the 1950s and 1960s.

Table 9
Chi square test

<table>
<thead>
<tr>
<th>HYPOTHESES</th>
<th>CONFIDENCE INTERVAL TO ACCEPT</th>
<th>CHI SQUARE VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>H6: That the incidence of borrowings through Unsecured Notes and Debentures was independent of the time periods 1955-60 and 1961-65.</td>
<td>&lt;9.21</td>
<td>.87</td>
</tr>
</tbody>
</table>
7. SUMMARY AND DISCUSSION OF FINDINGS

This paper presents new evidence about the introduction of consolidation reporting in Australian accounting practice prior to 1961, and relates that evidence to changes in regulatory requirements from differing sources, and of differing authority. Whereas prior studies, which relied on sampling techniques for evidence of changes in reporting practices, this study examined the population of non-mining companies listed on the Sydney Stock Exchange as at January 1958, and identified when they first used consolidated statements. This evidence was related to the chronology of regulation permitting or prescribing the use of consolidated statements. Regulatory changes since the 1920s progressively narrowed options for modes of reporting, extended the range of companies and entities to be encompassed by consolidated statements, and strengthened the authority of the regulatory requirements themselves.

Prior studies by Whittred (1986, 1987) have unaccountably erred in their identification of 1941 amendments to the listing rules of the Sydney Stock Exchange as constituting the first requirements for the publication of consolidated statements - despite referring to prior publications which made clear that these listing rules only made consolidation an optional form of reporting. In fact, the first regulations to require publication of consolidated data were the 1966 amendments to the listing rules of the AASE which required notices to the market (later termed 'preliminary final statements') to present consolidated data. On the other hand, regulatory requirements have progressively encouraged the presentation of consolidated statements since 1928, by making this form of reporting an optional or a favoured presentation.

In that sense, very few listed companies could be said to have 'voluntarily' presented consolidated statements, independently of regulatory influences. Indeed, contrary to suggestions made in prior studies, it was found that only around 40 of the 779 companies listed in 1958 (ie 5%) could be said to have 'voluntarily' presented consolidated statements, rather than to have been subject to the effect of regulations. However it is also significant that in this area of accounting, practice preceded regulatory requirements, albeit to a limited extent.

The evidence presented here suggests that compliance with regulatory requirements was clearly related to the authority of those regulations. Plainly statutory requirements have been more influential than listing rules of the stock exchanges, and more influential than professional recommendations at a time when these lacked legal backing. At the
same time, the history of the profession's activities suggest that it played a leading role in disseminating knowledge about the techniques of consolidated statements - through lectures, professional literature, and examination requirements.

The findings of this study also contradict claims that the emergence of a 'market for debt'; was the primary factor encouraging consolidation (Whittred, 1986), that consolidated statements were introduced to reduce agency costs (Whittred, 1987), and that 'agency or contracting cost variables overwhelmed all others in terms of explanatory power' (Whittred, 1988).

The most basic flaw in Whittred's analysis was the misrepresentation of 1941 listing rules as requiring the preparation of consolidated statements - which led to basic misdescription of reporting practices by a small sample of firms as having either 'voluntarily' presented consolidated statements rather than publishing those reports because they were subject to regulations. The hypotheses outlined in Whittred's studies were unexceptional, though the evidence presented as 'testing' those hypotheses involved some dubious proxies for what were described as 'agency or contracting cost variables'. For example, Whittred did not present any evidence of contractual relationships established by lenders; but simply speculated that the 'emergence of a market for debt' may have led lenders to seek to monitor the performance of holding companies and subsidiaries through consolidated statements.

Whittred's reliance on secondary sources for evidence (rather than on direct inspection of the accounts of companies publishing consolidated statements) meant that his creative speculations were unquestioned. Interpretations of findings based on data assumed to be proxies for other variables, effectively elevated those speculations to the status of assumptions. High levels of debt were assumed to mean that there was a high incidence of contractual arrangements established by lenders. Evidence of lending between holding companies and subsidiaries were assumed to mean that those companies had established cross-guarantees, which in turn (it was further assumed) would make consolidated statements a relevant source of data to lenders intent on minimising agency costs.

Putting the logic of that reasoning aside, the brief review of evidence drawn from inspection of the balance sheets of first-time consolidators reported here shows that any supposed 'increasing reliance on debt' (if valid) was commonly associated with asset-based lending, with borrowings commonly being secured by charges over real property.
That form of lending would not require lenders to seek regular reports in the form of consolidated statements. Further, even within the period selected by Whittred as a time in which there was a changing 'market for debt', so-called 'voluntary consolidators' did not record greater reliance on debt than other firms; there was no discernible trend in reliance on debt instruments which established formal contractual arrangements for monitoring; and the capital structure of 'voluntary consolidators' was not significantly different from the capital structure of other companies presenting consolidated statements in the face of changes in regulations. All in all, the evidence obtained from primary sources did not lend any support for explanations of increased use of consolidated statements based on 'agency or contracting cost variables'.

Rather, the findings of this study of reporting practices are consistent with prior interpretations of the history of reporting practices in this area (Gibson, 1971; Walker, 1978; Bircher, 1988). It seems likely that the adoption of consolidated accounting in the late 1940s and 1950s was a reflection of a range of factors, including the growing acceptance of the technique of consolidated financial reporting by practitioners, and by professional bodies.

Some final observations underline this point. While The Institute of Chartered Accountants and the Australian Society of Accountants made their first pronouncements on the subject of consolidations in 1946 and 1956 respectively, that did not mean that the majority (or even many) practitioners were familiar with the techniques of consolidation. Indeed, it was not until 1953 that questions on consolidation accounting first appeared in examination papers set by the Institute (in the subject 'advanced accounting'). Thereafter, textbooks used in Australia often provided basic information about the concepts and techniques of consolidations. It was not until 1970s that specialist texts could presume that readers had some knowledge about basic techniques. J.L. Shaw, the author of the 1973 edition of Bogie on Group Accounts (the English text prescribed for the Australian Institute’s Professional Year program), noted:

In preparing this third edition I have felt able to omit much introductory material since the basic principles and concepts of group accounts are now widely understood.

During the 1950s the use of consolidated statements was still sufficiently novel for practitioners to remark on their publication. Trigg (1957) in an address to the Australian
Accountant's Research Society (South Australian Division) at the annual Congress said that:

Each year we find a new crop of consolidated accounts appearing, and I venture to suggest that practitioners are making a valuable contribution in the public interest by persuading directors that adequate information can only be given to shareholders by supplementing the separate accounts of the holding company with consolidated accounts.

Comments like these underline the emphasis by practitioners on providing information to shareholders.

Similar comments were found in the annual reports of companies when they first presented consolidated statements. The annual reports of all the 779 companies listed on the Sydney Stock Exchange at 30 January 1958 were examined, but it was not possible to locate the full series of annual reports published by these companies. However the following comments taken from a selection are illustrative. Many referred to changed regulatory requirements; others professed a concern to provide improved information to shareholders.

**Australian Paper Manufacturers (1948)**
In conformity with Stock Exchange requirements a Consolidated Balance Sheet, incorporating all subsidiary Companies controlled by your company is also presented.

**Consolidated Finance (1946)**
The Balance Sheet of the Parent Company with an aggregate Balance Sheet of the Company and its Subsidiary Companies is presented and these will give shareholders a picture of the expansion and progress of the Corporation during the past twelve months.

**Arthur Cocks & Company Limited (1955)**
This year your directors have included a consolidated Balance Sheet of the company and its subsidiaries' activities. That should prove of interest to Shareholders.

**Samuel Allen and Sons Limited (1951)**
This year a consolidated Balance Sheet of the companies and its subsidiaries is presented to you in accordance with the requirements of the Queensland Companies Act. [Note: Queensland legislation did not require consolidation until 1961].

**York Motors (1952)**
... it was felt that a consolidated statement for both companies would more clearly show to shareholders the actual results and position of the business.
These excerpts are not presented to suggest that the evolution of consolidated statements reflected greater activism by shareholders - there is little evidence of that. But the excerpts do hint at a willingness on the part of at least some company officers to be seen to be catering to the information needs of shareholders in the face of changing commercial practices.

One could argue that the increasingly complex nature of business structures is likely to have influenced the popularisation of the use of consolidated statements. Businesses during this century have become ever more complex and diverse. Whereas once a company may have managed its various operations through a divisional structure, increasingly the growth in size of companies and indeed the diverse nature of a company's operations have meant that complex company structures have evolved. Whilst undoubtedly there were complex business structures in the early part of this century there has been a rapid growth of this type of business in the middle of the century. Businesses for their own internal purposes would have needed consolidated statements and this could have spilled over to external reporting.

In the face of increasingly complex business structures, several leading writers had expressed views about the virtues of consolidated statements as a means of reporting to a range of stakeholders, and practitioners in turn may have been influenced by arguments expressed in an emerging literature. Indeed, it may be that the eventual popularisation of consolidation accounting followed from a greater awareness on the part of practitioners about how to compile these reports.

It may also be that accounting practices were influenced to some extent by the interests of lenders - but equally, it is possible that any debt contracts that were written, say, after the 1950s were written in terms of consolidated statements for no other reason than that knowledge about the techniques was now more widely available. The development of the technique led to its being used.

Undeniably, changes in regulation were associated with changes in practice - but it also appears that changes in regulatory requirements have led to greater emphasis on the techniques of consolidation in education programs.
In summary, the emergence and eventual popularisation of consolidation accounting may well have been shaped by a complexity of factors - including changing commercial practices, regulatory requirements, education programs, and the force of ideas.

It would be foolish to suggest that there was a one-way, causal relationship between specific variables. Yet that is at the heart of the some prior contributions to the literature: that lenders demanded the inclusion of provisions in contracts to ensure the provision of consolidated data, which in turn led corporations to publish that form of information. Equally, of course, it would be foolish to suggest that the contributions from accounting writers shaped regulation which in turn shaped practice. The relationship between the views of accounting writers, education, regulation, commercial contracts and practice is likely to have been quite complex - more complex than a series of one-way causal relationships.

However the evidence presented here plainly showed that changing regulatory requirements relating to the presentation of consolidated statements were followed by greater use of consolidated statements in practice. That finding may not, when stated baldly, seem remarkable. However the finding contradicts prior claims that the interest of lenders (through ‘contracting’) was a more significant influence on practice in the use of consolidated statements than regulation.
REFERENCES


Trigg, F.E. (1957), 'Some thoughts on the purpose and presentation of consolidated accounts with particular reference to the auditor', *The Chartered Accountant in Australia*, July 1957.


