The Irish Accounting Review (2004), Vol. 11, No. 2, 1–16

THE DEVELOPMENT OF FINANCIAL REPORTING IN IRELAND DURING THE TWENTIETH CENTURY: A TEACHING RESOURCE

Peter Clarke

University College Dublin

Eldon Gardner

University of Lethbridge, Canada

ABSTRACT

Accounting courses, in general, include little detailed consideration of the historical aspects of accounting. The case study detailed below is an attempt at innovation in the accounting curriculum and also an effort to integrate aspects of accounting history with the development of financial reporting in Ireland. This case study involves examining the financial statements of Arnotts[1] *– a prominent Dublin retail company – for the financial years 1900 and 1999 in order to identify the significant accounting changes that took place in financial reporting practice in that company during the twentieth century. The choice of Arnotts was made because the information was readily available. Also, its auditors throughout the last century have been Craig Gardner and Company (now PricewaterhouseCoopers), the longest established and one of the most prestigious accountancy firms in Ireland.*

INTRODUCTION

As recently noted by Bolt-Lee and Foster (2003), the call for change in accounting education is not a new phenomenon. While there is no consensus on the specific changes, there is agreement that there is need for change in both *what* is taught in accounting programmes and *how* it is taught. The case study for students detailed below is an attempt at innovation in the accounting curriculum. It integrates aspects of accounting history with financial reporting and is intended for use as a pedagogical device in the classroom. To the authors' knowledge, it is the first such material available in an Irish context[2]. The authors support the argument of Koeppen (1990) who wrote:

> ...adding an historical dimension adds a sense of culture to the accounting curriculum. Developing the students' awareness of this culture will help them to understand the role of accounting in society and their own role as accountants. This should lead to better educated students and better educated professionals. (p. 95)

Accounting courses in general contain little detail about the development of financial reporting systems: they do not explore how the accounting system has evolved, the major changes that have occurred and why these changes occurred at specific times. Therefore, it is useful for students to be provided with financial statements of an organisation from different eras (see **Appendix 1**) so that the various changes over time can be identified and better understood. It is with this in mind that the following case study has been developed. This case study involves examining the financial statements of Arnotts - a public limited company and famous Dublin retail store - over time, in order to identify the significant accounting changes that have taken place in financial reporting practices during the twentieth century. Amernic and Elitzur argue (1992, p. 31) that 'an organisation's annual report may reveal insights into the type and details of accountability required by the environment'. The sections which follow present information on the company (Arnotts) and its publicly available and historical financial statements, suggest how these materials may be integrated into the accounting curriculum (the assignment) and, finally, highlight potential benefits of using this case study material.

BACKGROUND INFORMATION ON THE COMPANY

Arnotts is a retail company in the centre of Dublin with a long history. The choice of Arnotts was relatively simple because the financial statements of the company have been publicly available since 1876 when its shares were first traded on the Dublin Stock Exchange. They are, therefore, official and public documents of the company, prepared for accountability purposes. Also, its auditors have been Craig Gardner and Company - now PricewaterhouseCoopers - the longest established and one of the most prestigious accountancy firms in Ireland. In addition to its financial statements, there is a published history of the company, written by a former managing director (Nesbitt, 1993). In many ways, it is a remarkable story and the foreword to the book states:

> Arnotts, despite a disastrous fire on its premises, two world wars, a rebellion, a civil war, market depression and the other factors that have afflicted Ireland, has continued to trade and has never failed to make a profit or been unable to pay a dividend to its shareholders. (p. xi)

Arnotts, a limited liability company, followed first UK and then Irish financial accounting reporting practices during the course of its financial history. Accounting practice in Ireland is closely linked to that of the UK since, from 1801 until 1922, all company law applicable in Ireland was enacted in Westminster under the Act of Union. These practices were codified, originally in 1844 legislation, and amended by various other acts including, in Ireland, the Companies Act, 1963, and these are summarised in **Appendix 2.** However, the various company law enactments provided the minimum amount of financial disclosure; this was in keeping with the *laissez-faire* attitude of legislators which shaped accounting practice in the nineteenth century. From the Second World War onwards, increasing attempts have been made to regulate and constrain the dynamism and instrumentality inherent in the practice of accounting, especially in the UK (Hopwood and Vieten, 1999). Thus, since 1970 in these islands, with the formation of the (then) Accounting Standards Steering Committee (ASSC), financial reporting practice has been heavily influenced by the promulgation of accounting standards. It is worth noting that, until 1990, the UK and Ireland had a common system for the formulation of accounting standards, initially through membership of the ASSC and thereafter through the Accounting Standards Committee.

The financial statements of Arnotts are provided in **Appendix 1** and relate to two separate reporting periods, i.e. for the financial years 1900 and 1999; they have been slightly reformatted here for presentation purposes. The financial statements for 1900 did not contain any 'notes to the financial statements', whereas the notes to the 1999 financial statements are copious but are not reproduced here. To put this case study into context, some narrative on the development of financial reporting in Ireland is provided in **Appendix 2**.

Potential benefits

The potential benefits of using this case study are many. First, it is an historical case and it is important that students realise that accounting practice does not exist in a vacuum and is a dynamic rather than a static discipline. The Accounting Education Change Commission (1990, p. 308) argued that 'an appreciation of the flow of ideas and events in history and [a] knowledge of historical as well as contemporary events affecting the profession is essential to effective teaching'. Second, either written or oral presentations by students as part of this assignment should improve their communication skills, which are seen as crucial to the work of future accountants (IFAC, 2003; Albrecht and Sack, 2000). Furthermore, if this assignment is done in groups, then it will also improve an individual's other social skills such as the art of persuasion and the ability to effectively listen to and integrate other points of view. Third, this case study could be supplemented by requiring participants to conduct a similar exercise for another country and would represent a useful introduction to international financial reporting and the differences in financial reporting practices in different countries. Commenting on such differences, Nobes and Parker (2004) argue that legal and tax systems, methods of corporate financing and the impact of inflation interact with national culture to affect the style of financial reporting in a particular country at any particular moment in time. Finally, it is hoped that this assignment will make the study of accounting that little bit more interesting and enjoyable for students because it allows them to use "real" accounting information rather than abstract data.

THE ASSIGNMENT

This case study can be used in any financial accounting/financial reporting course where the instructor wants to supplement the traditional, computational-type problems with material suitable for discussing the evolving role of accounting in society and its regulation. Ideally, before attempting this assignment, students should have covered the basic principles and statements of financial accounting, together with an introduction to the historical dimensions of the discipline. It is recommended that this case study be scheduled as an assignment, with participants making either an oral or a written presentation, followed by class discussion including a brief "wrap-up" session by the instructor. Students should be requested to allow a maximum of two hours for preparing their submission. The assignment may be introduced by way of the following remarks:

> The primary purpose of this case study, using the financial statements of Arnotts for the financial years 1900 and 1999, is to identify the significant changes in financial reporting practices that have taken place during the past century, to suggest why these various changes have occurred, and to express an opinion on whether these changes are positive or negative. There is no hard and fast rule as to what is significant and what isn't. Each person will think differently. It may be useful to recast the 1900 financial statements in 1999 format to highlight important differences. In addition, you should examine both sets of financial statements to see what kinds of financial analysis of these statements are possible.

SUMMARY AND CONCLUSION

As can be seen from the financial statements provided for this case study in **Appendix 1**, there was considerable change in format and disclosure during the twentieth century. From some rather minimal information on assets, liabilities and profits in 1900, there has been considerable movement with expanded disclosure including notes (not provided here), additional statements (e.g. cash flow statements) and the presentation of comparative figures. Companies are providing more information to investors, and investors are better able to make decisions – at least so it would seem. However, one only has to look at, for example, Enron, WorldCom, Ahold and Parmalat to see that more disclosure does not necessarily protect shareholders and other stakeholders in companies. The system of accountability, based on disclosure in financial statements, depends not only on having rules but also on having mechanisms to ensure that the rules are enforced and that they accomplish the intended purposes. Thus, financial disclosure may have improved, but continuing vigilance is required to ensure that the impact of changes is positive. It would be interesting to get participants to speculate on what the financial statements for 2099 would look like. While this may consider potentially different user groups and the type of information that might be important to them, such speculation is not covered in detail by the teaching note in **Appendix 3**.

ACKNOWLEDGEMENT

The financial support of the Irish Accountancy Educational Trust is gratefully acknowledged, as is the permission of Arnotts to use the financial information contained in Appendix 1.

NOTES

1 For consistency, we shall use the description "Arnotts" for the name of the company except where another title is used in an official reference.

2 An electronic copy of the financial statements included in **Appendix 1**, together with other material, may be obtained by contacting the lead author.

APPENDIX 1

Arnott & Company Dublin, Limited

Balance Sheet at 31st January, 1900

Capital and Liabilities	£ s d	**Property and Assets**	£ s d
CAPITAL:-		Premises, Plant, Fixtures	
15,000 6% Cumulative		and Goodwill per last a/c	145,416 17 7
Preference Shares of £5			
each, £4 paid up	60,000 0 0	*Add*:- Outlay for year	7,677 12 2
			153,094 9 9
		Warehouse and	
15,000 Ordinary Shares		Household Furniture:-	
of £5 each, £4 paid up	60,000 0 0	Outlay to date, less	
		depreciation	990 0 0
	120,000 0 0		
DEBENTURES:-		Stock in Trade, as taken	
		and certified by the	
420 5% Debentures of £100	42,000 0 0	Heads of Departments	62,712 7 5
180 6% Debentures of £100	18,000 0 0	Horses, Vehicles,	
		Harness, Provisions etc.	319 16 3
4,000 4½ % Debentures of		Sundry Debtors and Life	
£10 each	40,000 0 0	Insurances, after	
	100,000 0 0	providing for Bad and	
		Doubtful Accounts	75,600 17 0
LIABILITIES:-			
Trade and Cash Creditors	91,306 6 10		
RESERVE FUND	2,000 0 0	Cash and Bills in Hand	28,417 3 6
PROFIT & LOSS			
ACCOUNT:-			
		Insurances etc., paid in	
Balance per Account	8,734 3 2	advance	905 16 1
	£322,040 10 0		£322,040 10 0

Arnott & Company Dublin, Limited

Profit and Loss Account for year ended 31st January, 1900

	£	s	d		£	s	d
To Depreciation of Furniture, Plant	818	7	8	By Net Profit on the Trading after payment of Salaries, Wages, Rents, Taxes, Insurances, Interest on Deposits, Repairs, Cost of Management, and all Trade Charges, and providing for Bad and Doubtful Debts	15,219	7	7
Interest on £40,000, 4½% Debenture Stock to 31st January, 1900	1,650	0	0				
Interest on £42,000 Debentures to 31st January, 1900, at 5% per annum	2,100	0	0	Balances from last account	3,363	3	3
Interest on £18,000 Debentures to 31st January, 1900, at 6% per annum	1,080	0	0				
Interim Dividend for half-year to 31st July, 1899, on £60,000 Preference Shares at 6% per annum	1,800	0	0				
Interim Dividend for half-year to 31st July, 1899, on £60,000 Ordinary Shares at 8% per annum	2,400	0	0				
Balance down	8,734	3	2				
	18,582	10	10		£18,582	10	10
To Proposed Allocation:-				By Balance now available	8,734	3	2
Dividend for the half-year to 31st January, 1900, on £60,000 Preference Shares at 6% per annum	1,800	0	0				
Dividend for the half-year to 31st January, 1900, on £60,000 Ordinary Shares at 8% per annum	2,400	0	0				
Reserve Account	1,000	0	0				
Carry forward to next a/c	3,534	3	2				
	8,734	3	2		8,734	3	2

We have examined the foregoing Balance Sheet and Profit and Loss Account, with the Books of the Company, and have to report that in our opinion the Accounts are correctly framed, and that the Balance Sheet exhibits the true financial position of the Company.

CRAIG, GARDNER & CO.,
Dublin, 22nd February, 1900
Auditors

Arnotts PLC

Group Balance Sheet: 31 January 1999
(reference to notes to the accounts have been excluded) *

	1999 (£000)	1998 (£000)
Fixed assets		
Tangible assets	113,502	105,099
Financial assets	516	347
	114,018	105,446
Current assets		
Stocks	10,256	8,929
Debtors	11,489	11,962
Cash at bank and in hand	9,595	5,310
	31,340	26,201
Creditors (amounts falling due within one year)	(35,429)	(22,539)
Net current (liabilities)/assets	(4,089)	3,662
Total assets less current liabilities	109,929	109,108
Creditors (amounts falling due after more than one year)	(20,248)	(25,169)
Provisions for liabilities and charges	(1,418)	(1,414)
	88,263	82,525
Capital and reserves		
Called up share capital (equity and non-equity)	18,198	17,877
Share premium account	61	–
Revaluation reserve	38,452	38,452
Other reserve	178	178
Profit and loss account	31,374	26,018
Shareholders' funds	88,263	82,525

* *The 1999 financial statements include reference to the significant accounting policies of the group, together with 26 "notes to the financial statements" covering, for example, an analysis of both turnover and operating profit, disclosure of directors' remuneration, disclosure regarding tangible and financial fixed assets, analysis of stocks, debtors and creditors, and information on contingent liabilities. There were no notes provided to the 1900 financial statements.*

Arnotts PLC

Group profit & loss account: year ended 31 January 1999

	1999 (£000)	1998 (£000)
Turnover including concession sales	103,144	78,611
Less: concession sales	(29,763)	(19,505)
Turnover excluding concession sales	73,381	59,106
Operating profit	10,348	7,914
Profit on disposal of fixed asset	2,356	
Profit before interest	12,704	7,914
Net interest payable	(1,930)	(195)
Renegotiation of interest rate swap arrangement	(1,454)	
Profit before taxation	9,320	7,719
Taxation	(1,663)	
Profit for financial year	7,657	7,719
Dividends paid	(843)	(714)
Dividends payable/proposed	(1,991)	(1,601)
Increase in retained profits	4,823	5,404
Statement of retained profits		
At beginning of year	26,018	20,185
Increase in retained profits	4,823	5,404
Scrip dividend	533	429
At end of year	31,374	26,018
Earnings per ordinary share	42.5p	43.6p
Earnings per ordinary share adjusted for exceptional items and deferred taxation	37.1p	30.2p
Diluted earnings per ordinary share	42.1p	42.8p

Arnotts PLC

Cash flow statement: year ended 31 January, 1999

	1999 (£000)	1998 (£000)
Cash flow from operating activities	13,207	11,449
Returns on investments and servicing of finance		
Interest received	191	466
Interest paid	(2,108)	(2,082)
Renegotiation of interest rate swap arrangement	(1,454)	–
Interest element of finance lease rental payments	(13)	(11)
Preference dividends paid	(5)	(5)
Net cash outflow from returns on investments and servicing of finance	(3,389)	(1,632)
Taxation		
Corporation tax repaid/ (paid)	480	(1,268)
Capital expenditure		
Purchase of tangible fixed assets	(7,350)	(25,181)
Sale of tangible fixed assets	2,356	2
	(4,994)	(25,179)
Equity dividends paid	(1,906)	(1,560)
Cash inflow/ (outflow) before financing	3,398	(18,190)
Financing	786	12,495
Increase/ (decrease) in cash in the year	4,184	(5,695)

REPORT OF THE AUDITORS TO THE MEMBERS OF ARNOTTS PLC

We have audited the financial statements on pages –, which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on page –.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page –, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing *Practices Board. An audit includes examination, on a test basis,* of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 January 1999 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Acts, 1963 to 1990, and the European Communities (Companies: Group Accounts) Regulations, 1992.
We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the company. The company's balance sheet is in agreement with the books of account.
In our opinion the information given in the directors' report on pages – to – is consistent with the financial statements.
The net assets of the company, as stated in the balance sheet on page –, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 January 1999 a financial situation which under Section 40 (1) of the Companies (Amendment) Act, 1983 would require the convening of an extraordinary general meeting of the company.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Dublin 30 March 1999.

APPENDIX 2

The development of financial reporting in Ireland

The development of financial reporting in Ireland can be divided conveniently into three distinct periods. The first period coincides with the period of British political domination and this ended in 1922 with the foundation of the Irish Free State. This is followed by a period of political independence associated with little economic development. The third period, from the early 1970s, is associated with the introduction of Accounting Standards and the Harmonisation of Financial Statements within the EU. Each of these is now briefly discussed in turn.

Ireland under the Act of Union

The first period is associated with the "Act for the Union of Great Britain and Ireland" which took effect from the beginning of January 1801. This Act dissolved the Irish Parliament and made Ireland a province of the United Kingdom. After the passing of the Act of Union, various types of legislation, with the notable exception of taxation, were similar in both countries. One piece of legislation, the Joint Stock Companies Registration and Regulation Act of 1844, stimulated financial reporting regulation in these islands. The Act facilitated the incorporation of companies, who could now use the simple process of registration. The Act introduced the principle of publicity as a safeguard against fraud and mismanagement with a requirement that, for example, a "full and fair" balance sheet be prepared and presented to each ordinary meeting of shareholders (it did not require the preparation of a profit and loss account), and that auditors be appointed to report to shareholders on the balance sheet.

Additional legislation was introduced and existing legislation was amended in subsequent years which included, for example, the introduction of limited liability of shareholders. All existing company legislation was consolidated by The Companies (Consolidation) Act of 1908. This required that copies of the balance sheet had to be sent to shareholders seven days before the meeting. However, the profit and loss account only had to be produced at the meeting. The compulsory audit provisions of the 1900 Act were retained. It was this 1908 Act which the new Government of the Irish Free State adopted in 1922 and which was not amended until 1963.

The first four decades of independence

It should be remembered that the Irish Free State, later the Republic of Ireland, was born in 1922 initially out of a War of Independence which was followed by a Civil War. As Meenan (1970, p. 34) notes, 'the new State therefore began its career under the most unfavourable circumstances that could well be imagined'. The prevailing fiscal and economic conditions required emergency responses with the main emphasis being placed on the maintenance of law and order and the stimulation of agriculture since Ireland was, at that time, a predominantly agricultural country. This was followed in the 1930s by a protectionist era, an economic war with Britain (1932 - 1939), and then World War II. The Marshall Aid plan, which was significant in stimulating European economies in the early 1950s, had little impact on Ireland (Whelan, 2000).

Thus, the first 40 years after independence - from the 1920s to the 1960s - were characterised by a type of independent isolation. Ireland stagnated, unable or unwilling to cope with its considerable economic and social problems (Breen, Hannan, Rottman and Whelan, 1990). This was also reflected, for example, in relatively static financial reporting practices (Clarke, 2001). However, as the 1950s drew to a close, the Republic began a transformation. The political decision to actively promote direct foreign investment in Ireland in the late 1950s and early 1960s represented a change in policy from the era of protectionism to an export-led growth strategy. To facilitate this, for example, tax legislation was introduced in 1956 whereby profits from the sale of goods manufactured in Ireland and exported were exempt from tax.

This extremely attractive taxation incentive encouraged many multinational firms to locate in Ireland. Also, Ireland's impending entry to the European Union made it a very enticing location for business. In November 1958, a White Paper, *Programme for Economic Expansion,* was published which formally signalled a complete change in the Republic's economic policy and an abandonment of the protectionism philosophy that had been in force since the 1930s. The political climate in Ireland concentrated on the encouragement of outside investors and therefore changes were required in the existing company law requirements, which were viewed as outdated.

Meanwhile, in the UK, company law had moved on from the 1908 legislation. For example, the 1929 Companies Act required the publication of a profit and loss account. The Companies Act of 1947 incorporated into law the requirement for group accounts, numerous new disclosures and an auditors' report on whether the accounts provide a "true and fair" view. Relative to the UK, the delay in Ireland in proposing changes to company law (and therefore financial reporting requirements) is noteworthy. Boden (1947) argued that the

> ...abuses which have made the new legislation essential in Britain have never characterised the company situation in Ireland. The reason for this is probably not so much any moral superiority of the Irish people as the fact that in a smaller and less industrialised country the opportunities for successful fraud are considerably lessened. (p. 166).

In Ireland, the 1963 Companies Act established the primary framework and approach to accounting disclosure. For example, the publication of a profit and loss account for companies together with comparative figures for previous years was first introduced in Ireland by this Act. This legislation mirrored the financial reporting elements of the consolidated UK Act of 1948.

Accounting standards and the harmonisation of financial statements within the EU

The third period in the development of financial reporting in Ireland commences around the 1970s and represents the era when accounting standards were introduced in the UK and Ireland, together with the harmonisation of financial statements in the context of the European Union. Severe criticism of the "flexibility" of accounting practice, particularly in the UK, was a major factor in the introduction of accounting standards from 1970. The Accounting Standards Steering Committee, of which Ireland became a member, was formed in 1970 and this ensured that the UK and Ireland had a common system for the formulation of accounting standards. Ireland's subsequent membership of the (then) European Economic Community in January 1973 brought additional accounting obligations in the context of harmonisation of financial statements. One of the aims of the "harmonisation" of financial statements is to reduce the diversity in the financial statements of companies located in different Member States, which would otherwise represent an impediment to free trade within the European Community. It should also be noted that it was proposed to harmonise the taxation systems of Member States and this required the harmonisation of financial accounting practices. In Ireland, following other European countries, The Companies (Amendment) Act, 1986 implemented the Fourth EU Council Directive (78/660/EEC) on company law. This Act introduced fixed formats for profit and loss accounts and balance sheets together with extra disclosure requirements by way of notes to the financial statements.

Many developments have taken place in financial reporting in Ireland since the early 1970s and they are comprehensively reviewed by Cahill (1999). This period has seen the most profound change in Irish company reporting practices, with the addition of new accounting statements such as cash flow statements. In addition, there has been an expansion of Notes to the Accounts to include significant accounting policies. It is interesting to speculate on what the financial statements in 2099 will look like!

APPENDIX 3

Teaching note

This case study examines the financial records of Arnotts for the financial years 1900 and 1999. The primary objective is to identify the significant changes in financial reporting that have taken place during that period. What new form have financial statements taken and what new substance has been added?

Comparison of annual reports of 1900 and 1999: significant changes and explanation

Format of the auditors' report: The 1900 report is relatively short and refers to the "true" financial position of the company. The 1999 report is much more comprehensive and, while still expressing an opinion, refers to a "true and fair view" of the financial position, profitability and cash flow. The 1999 report also explains the respective duties of the directors and the auditors and explains what an audit entails. The expanded audit report is designed to provide greater clarity for users regarding the role and duties of auditors.

Focus of the auditors' report: The 1900 report is untitled and not addressed to anyone. The 1999 report is addressed to shareholders and is clearly titled.

Date of the auditors' report: The 1900 audit report was dated 22 days after the financial year end. By 1999, reflecting the growing complexity of business together with the competing demands of other major clients, the audit report was dated 30 March.

Comparative figures: Comparative figures are not provided in the 1900 financial statements but are included in the 1999 accounts. The requirement for comparative figures was introduced by the Companies Act, 1963. The inclusion of such information allows users to identify trends from year to year.

Rounded figures: The 1900 financial statements are reported in, literally, pounds, shillings and pence. The 1999 accounts are rounded to the nearest £000. This reflects the application of the materiality concept, which has been defined by the FASB in 1986 (Statement of Financial Accounting Concepts 2, p. 33) as 'The magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement'.

Additional disclosure in the 1999 accounts: In the early 1900s, many limited companies in Ireland were owned and controlled by the original owner-manager families. Their incorporation as limited liability companies was due, in many cases, to taxation considerations. Thus, there was little need to communicate financial information outside the firm. The Companies Act, 1963, in Ireland was the first major act in over 50 years relating to companies and their financial statements. The 1963 Act was influenced by the UK's 1948 Act, which included minimum disclosure requirements for both the profit and loss account and balance sheet. Such provisions were extended by the Companies (Amendment) Act, 1986, which implemented EU Directives aimed at harmonising financial statements across the European Community.

Group accounts: The 1999 financial statements are prepared on the basis of the "group", i.e. they are the consolidated financial statements of a parent company and its subsidiaries. Based on the information available, the 1900 accounts appear to relate to a single legal entity and there is no reference to any type of financial assets or investments. According to Edwards (1991) the earliest known British example of a consolidated balance sheet was produced in 1910. The concept and preparation of "group" accounts gradually developed from the 1930s and their preparation was mandated in Ireland by the Companies Act 1963. Their format and disclosure requirements were formally codified in the Seventh EU Directive on Company Law that was implemented in Ireland by the European Communities (Companies: Group Accounts) Regulations, 1992.

The respective prominence of the balance sheet and the profit and loss account: In 1900 the overall presentation highlights the prominence of the balance sheet over the profit and loss account. In addition, the auditor's report refers (in 1900) to the balance sheet giving a true view. By 1999, both the balance sheet and profit and loss account are given approximately equal prominence.

Change in balance sheet layout from horizontal (1900) to vertical (1999): The horizontal presentation was traditional for companies at the turn of the twentieth century. Both the horizontal and vertical formats are allowed in legislation implementing EU Directives but the vertical format is more commonly used. Also, it is favoured by US companies.

Headings for "Assets" and "Liabilities" have been clarified: The 1999 balance sheet clearly highlights headings for different assets and liabilities. Such headings were introduced in the Companies Act 1963 and reinforced in 1986. In the UK and Ireland the 1908 Companies Act required that limited liability companies file an annual balance sheet containing a summary of their capital, liabilities and assets.

Reference to horses: Clearly, horses were used in aspects of distribution for the business in the 1900s. Their disappearance reflects economic development in the form of motor vehicles, which were only introduced in Ireland in the early 1900s.

Disclosure of "sales" or "turnover": The disclosure of annual turnover only became a legal requirement for all companies in Ireland, subject to some exemptions, in the Companies (Amendment) Act of 1986. However, quoted companies adopted disclosure of turnover before this time. The non-availability of information on sales revenue restricted the type of financial analysis that is common today. For example, users could not calculate accounting ratios dealing with asset utilisation (e.g. sales/fixed assets), management of working capital (e.g. stock turnover days or debtor days), or profitability of sales (e.g. profit to sales).

Subdivision of the profit and loss account: The profit and loss account (1900) was divided into two parts. The first part (i.e. above the line) showed the deduction for both interest on debentures and interim dividends *paid.* The "balance now available" amounts to £8,734. From this amount is deducted proposed allocations in respect of (a) final dividends for the year on both preference and ordinary shares and (b) transfer to a (general) reserve account.

The accounting treatment of the proposed final dividend was in accordance with the strict legal position for these dividends, i.e. that they are not legally due until approved by shareholders at the AGM, which was *after* the accounting year ended. This separate accounting treatment ceased in relation to Arnotts in the financial statements for the year ended 31 January 1965 which were the first to be prepared under the Companies Act, 1963 and reflected the full application of the matching principle in relation to proposed dividends.

The inclusion of a cash flow statement: The 1999 financial statements include a cash flow statement, although this is not a legal requirement. The inclusion of a cash flow statement formally originated in Ireland (and the UK) in 1975 with the publication of SSAP 10. This SSAP focused on a funds rather than a cash flow statement but these have now been replaced by cash flow statements, whose format is outlined in FRS 1 (October 1996).

New terminology: There is a significant amount of new terminology revealed in the 1999 financial statements such as "financial assets", "share premium account" "revaluation reserve" and a "renegotiation of interest rate swaps". Such changes reflect the increasing complexity of transactions and events associated with modern commercial concerns. Because of their nature and materiality, their disclosure conforms to generally accepted accounting practice and is mandated, now, by accounting standards and/or company law.

Earnings per share (EPS): The 1999 profit and loss account makes reference to the earnings per ordinary share and diluted earnings per ordinary share. The growing emphasis on a firm's price earnings ratio (PER) by various users in the 1960s and onwards prompted the accountancy profession in these islands to develop an accounting standard on EPS. The relevant accounting (but not legal) requirements have been revised and good accounting practice will now disclose both ordinary and diluted earnings per share.

Exceptional items (disclosed as part of EPS) are mentioned in the 1999 profit and loss account: The 1999 accounts, as part of the EPS disclosure, make mention of "exceptional items". Such items are considered material in the context of the financial statements and relate to the ordinary activities of the company. Their separate disclosure is designed to give a true and fair view of the company.

Revaluation reserve: This item appears on the 1999 balance sheet (and greater detail is provided in the notes to the financial statements). Thus, users are presented with reasonably up-to-date information on the value of premises (located in the heart of Dublin). It appears that the 1900 value for fixed assets was based on historical cost. However, one must also take into consideration the impact of inflation on property prices during the twentieth century, and particularly since the 1960s/1970s, which coincided with attempts by the accountancy profession to introduce aspects of price-level accounting systems.

Change in title of company: In the 1900 financial statements the title of the company is "Arnotts and Company Dublin, Limited", whereas in the 1999 financial statements the title of Arnotts PLC is used. The description 'PLC' (for Public Limited Company) was introduced by the Companies (Amendment) Act, 1983, and this Act was passed principally in order to give effect to the EU Second Directive on Company Law. From 1983 on, in order to be a public company with limited liability (PLC), a number of requirements, designed principally to protect creditors from being victims of under-capitalisation, must be satisfied. Such requirements include a minimum amount of share capital and the company must not pay a dividend if it is insolvent in the sense of its net assets being less than its called up share capital and its undistributed reserves.

Websites

The following web sites provide additional information that may be useful in adding to the learning experience of this case study: www.ise.ie (Irish Stock Exchange); www.arnotts.ie (the company web site). However, it should be noted that Arnotts was delisted in July 2003 and is no longer quoted on the Irish Stock Exchange. However, the full financial statements for the financial year ended 31 December 2003 are available from the company's web site.

REFERENCES:

Accounting Education Change Commission (1990). Objectives of Education for Accountants: Position Statement Number One, *Issues in Accounting Education*, Vol. 5, pp. 307-312.

Albrecht, W.S., and Sack, R.J. (2000). *Accounting Education: Charting the Course through a Perilous Future*, Sarasota, FL: American Accounting Association.

Amernic, J. and Elitzur, R. (1992). Using Historical Annual Reports in Teaching: Letting the Past Benefit the Present, *The Accounting Historians Journal*, Vol. 19, pp. 29-50.

Boden, I. (1947). The History and Development of Company Law in Great Britain and Ireland, *MA Thesis* (unpublished), University College Dublin.

Bolt-Lee, C. and Foster, S. (2003). The Core Competency Framework: A New Element in the Continuing Call for Accounting Education Change in the United States, *Accounting Education*, Vol. 12, No. 1, pp. 33-47.

Breen, R., Hannan, D., Rottman, D. and Whelan, C. (1990). *Understanding Contemporary Ireland*, Dublin: Gill and Macmillan.

Cahill, E. (1999). Ireland, in *Accounting Regulation in Europe*, McLeay, S. (ed.), Basingstoke: Macmillan Press.

Clarke, P. (2001). Financial Reporting in Ireland: The Period of Independent Isolation, *The Irish Accounting Review*, Vol. 8, No, 2, pp. 23-43.

Edwards, J. R. (1991). The Process of Accounting Innovation: The Publication of Consolidated Accounts in Britain in 1919, *The Accounting Historians Journal*, Vol. 18, pp. 113-132.

Hopwood, A. and Vieten, H. (1999). The United Kingdom, in *Accounting Regulation in Europe*, McLeay, S. (ed), Basingstoke: Macmillan Press.

IFAC (2003). *International Education Standard 3: Professional Skills*, New York: IFAC.

Koeppen, D. (1990). Creating an Accounting Culture in the Classroom, *The Accounting Historians Journal*, Vol. 17, No. 1, pp. 89-96.

Meenan, J. (1970). *The Irish Economy Since 1922*, Liverpool: Liverpool University Press.

Nesbitt, R. (1993). *At Arnotts of Dublin 1843-1993*, Dublin: A. and A. Farmar.

Nobes, C. and Parker, R. (2004). *Comparative International Accounting*, London: Pearson Education.

Programme for Economic Expansion (1958), Dublin: Stationery Office.

Whelan, B. (2000). *Ireland and the Marshall Plan: 1947-57*, Dublin: Four Courts Press.