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Difficulties in establishing a limited liability company in Great Britain during the 1860s and the role of financial information: a case history[1]

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As a result of the legislation of 1855, 1856 and 1862, limited liability gained great popularity in the United Kingdom over the mid-1860s, involving not only the establishment of new companies but also the conversion of established private firms into limited companies.[2] However, economic historians usually point to the collapse of Overend, Gurney & Co. Ltd in 1866 as an equally significant landmark in this development, representing a complete reversal of their popularity if only cyclically.[3] Even if the collapse of this important company, as a result of a fraudulent prospectus, was not solely responsible, it marked a temporary pause in the explosion of founding new limited companies.[4] It also brought about a reversal, albeit temporary, in public opinion towards them, resulting in a belief that potential investors were

1 The authors would like to thank HSBC plc and the Girl Guides Association for their help concerning various documents in their possession. They would also like to thank Judith Wale, Brian Turner, Phil Cottrell and the anonymous referee for their helpful comments and suggestions on earlier versions of this paper.

2 B. C. Hunt, *The Development of the Business Corporation in England 1800–1867* (Cambridge, MA, 1936; repr. New York, 1969). He writes: 'By 1865, the Times (19 May 1865) was sufficiently impressed to exclaim that the whole country, if not the world, was growing every day into "one vast mass of impersonalities"' (pp. 145–6).

3 P. W. Ireland, 'The rise of the limited liability company', *International Journal of the Sociology of Law*, 12 (1984); H. A. Shannon, 'The first five thousand limited companies', *Economic History Review*, 3 (1932); idem, 'The limited companies of 1866–1883', *Economic History Review*, 4 (1933); and Hunt, *Development of the Business Corporation*.

4 Shannon, 'Limited companies of 1866–1883', found that between 1844 and 1856 966 companies were registered, between 1856 and 1862 nearly 2,500 and between 1863 and 1866 3,500 (of which 900 offered shares to the general public). However, during 1867–69 there were only 799 formations.

inadequately safeguarded as a result, usually, of being provided with both insufficient and deficient financial information, particularly by prospectuses that were unregulated and frequently misleading or uninformative.[5] Trust was broken: businessmen and investors were dubious of one another, and many entrepreneurs, who had previously welcomed the formation of limited liability companies, avoided them.[6]

Not only was the number of promotions high prior to the Overend, Gurney & Co. Ltd collapse but so too was the number of failures. In a statistical analysis of 7,000 companies formed between 1844 and 1868, Hunt estimated that only 2,900 were still in business in 1868.[7] He largely attributed this outcome to the high proportion of fraud, with many new companies having been established simply to enrich their promoters and accomplices. Subsequent statistical analysis by Shannon[8] reached a similar conclusion over the high percentage of insolvencies amongst companies, particularly during the first five years after their incorporation (17 per cent during the period 1866–83). But he also pointed to another reason: the large number of abortive company formations that proceeded no further than the registration of a memorandum of association.[9] Shannon remarks that 'we may say that in the first quarter century or so of limited liability the investor rejected more or less out of hand about one-third of the proposals submitted to him'. As to those companies that were founded and then failed, according to Shannon, they 'failed from fraud or gross mismanagement amounting to fraud'. However, the view of Sir John Clapham was quite different – that the large number of insolvencies was largely attributable to 'misfortune or mismanagement not necessarily amounting to fraud'.[10]

This paper examines some case study evidence concerning the issues surrounding the promotion of new joint-stock companies during the mid-1860s and the influence of financial information. It is not possible to tell from aggregate statistical studies alone whether, and to what extent, incompetence, or unprofitable speculation or fraud contributed to company failure. The different interpretations drawn

[5] Hunt, *Development of the Business Corporation*, wrote that: 'Limited liability suddenly became extremely unpopular; it had "palpably and plainly intensified a panic"; indeed many were disposed to father on it all the disasters that had occurred. A universal outcry against all joint-stock companies broke forth. The country was discouraged and suspicious, the House of Commons almost hostile' (p. 154).

[6] G. Robb, *White Collar Crime in Modern England: Financial Fraud and Business Morality, 1845–1929* (Cambridge, 1992), p. 187.

[7] Hunt, *Development of the Business Corporation*, p. 157.

[8] Shannon, 'Limited companies of 1866–1883'.

[9] From 1856, companies were incorporated merely by filing a memorandum of association, signed by a minimum of 7 people, stating the company name, its objects and its nominal share capital. If they made no substantive subsequent returns, they were regarded by the Registrar as abortive. See Shannon, 'The first five thousand limited companies'.

[10] Sir J. H. Clapham, *An Economic History of Modern Britain*, III, *Machines and National Rivalries (1887–1914) with an Epilogue (1914–1929)* (Cambridge, repr. 1951), p. 202.

from the same data by Shannon and Clapham illustrate this. It is also not possible to tell whether they were mutually exclusive (as Shannon's and Clapham's conclusions imply), whether they were combined, or whether they were interrelated in some other way. For example, some modern frauds have occurred as a result of business failure when the directors of the companies involved recognised it was inevitable.[11]

Contributing to the vulnerability of Victorian businessmen and investors was, according to Robb, 'the primitive nature of accountancy and auditing (which) made fraud difficult to discover'.[12] Not only were the principles of accounting still being established for these new types of business, there was also very little understanding as to how they should be applied and there was certainly no consistency or uniformity in their application.[13] Furthermore, as a result of the increased need for accountants' services (to a large part attributable to a rise in bankruptcy work), individuals with little or no training were setting up in practice as accountants and auditors.[14] According to Littleton, most audits were simply 'Inadequate and amateurish ... consisting even in 1875 of ascertaining that some sort of voucher could be produced for every payment and the printed balance sheet corresponded with the balances in the ledger'.[15]

Irrespective of accountants' and auditors' abilities to portray business reality in their accounts, the creation of their profession and the first efforts at profit measurement are attributed to the efforts to resolve these problems.[16] The first attempt at establishing professional bodies in England occurred in 1870, somewhat later than in Scotland.[17] Professional certification both enhanced the credibility of those who achieved it, and helped to raise professional standards. Studies of contemporary writings (notably in *The Accountant* which began publication in 1874) attribute improvements in bookkeeping and auditing skills to this professionalisation.[18]

[11] As in the recent case of Robert Maxwell.

[12] Robb, *White Collar Crime*, p. 181.

[13] See R. P. Brief, 'The origin and evolution of nineteenth-century asset accounting', *Business History Review* (1966); and R. A. Bryer, 'The late nineteenth-century revolution in financial reporting: accounting for the rise of investor or managerial capitalism?', *Accounting, Organisations and Society*, 18 (1993).

[14] It has recently been shown by R. A. Chandler, J. R. Edwards and M. Anderson in 'Changing perceptions of the role of the company auditor, 1840–1940', *Accounting and Business Research*, 23 (1993), that the primary audit objective was then financial statement verification and not, as was previously thought, fraud detection.

[15] A. C. Littleton, *Accounting Evolution to 1900* (New York, 1933; repr. 1966), p. 290. Robb, *White Collar Crime*, cites a similar, but more caustic, description – Charles Dickens's famous diatribe against the 'wooden guardians of property'. Dickens described auditors as 'composed of a little fussiness, a great deal of carelessness and trusting simplicity ... an almost superstitious reverence for figures, if they appeared to balance each other, and showed no mark of erasure; and that so long as these emblems or signs of things were provided in liberal quantities, it (the auditor) never cared to inquire whether the things themselves had any substantial existence' (p. 202).

[16] See Littleton, *Accounting Evolution*; and Bryer, 'Financial reporting'.

[17] These were in Liverpool and London, closely followed by Manchester in 1871. See Littleton, *Accounting Evolution*, p. 316.

[18] These initiatives culminated in the formation of the Institute of Chartered Accountants in 1880 from the local societies, with admission by examination only from 1882. See ibid., p. 316.

Case studies are probably the best means of examining the role of financial information with regard to both the initial formation and promotion of a new limited liability company and the subsequent financial decisions affecting it. The business discussed here is particularly interesting because attempts were made to establish it as a limited liability company both before and after the crash of Overend, Gurney & Co. Ltd. Questions asked of this case are: was the prospectus misleading? If so, was this intentional, and does this explain the failure of the prospectus? Was the failure of Overend, Gurney & Co. Ltd responsible for both the unsuccessful subsequent attempts to issue the company's shares and its eventual collapse? Concerning the published accounting information, was it used to mislead potential investors? Alternatively, was accountancy so 'primitive' that it was not open to intentional manipulation? Finally, was the accounting information provided to directors so 'primitive' as to be unreliable and, given the then lack of financial expertise and experience of entrepreneurs, were they capable of using it?

The businesses considered are the Vale of Belvoir plaster companies (subsequently referred to as VoB), most of whose accounting records, business correspondence and directors' minutes for the period 1864–71 have survived. At its peak, VoB not only boasted of processing gypsum that was 'the finest in the kingdom'[19] but also of owning the largest, most modern and most efficient 'manufactory' of gypsum products in Europe.[20] It has also been estimated that from 1868 to 1871 VoB accounted for about 18 per cent of total British output of gypsum products and its manufactory at Orston about 8 per cent.[21] Although records survive for other British companies formed around 1866, they were largely successful and continued to trade into the twentieth century.[22]

I

Underlying the spirit of optimism during the early 1860s was the recognition that technological advances had produced opportunities of scale that could only be obtained by forming much larger businesses. The greater amounts of capital that this implied required the involvement, and support, of investors who, generally, had limited or little understanding of the businesses they were financing.[23]

[19] Victoria History of the Counties of England, *A History of Nottinghamshire* (London, 1910).

[20] Nottinghamshire Archives Office [hereafter NAO]: DD.H 167/107; and *The Newark Advertiser* [hereafter *NA*] (2 Aug. 1865).

[21] P. A. Barnes and R. J. Firman, 'Gypsum in the parish of Orston, Nottinghamshire', *Bulletin of the Peak District Mines Historical Society*, 11 (1991).

[22] L. Richmond and B. Stockford, *Company Archives: The Survey of the Records of 1000 of the First Companies in England and Wales* (Glasgow, 1986).

[23] P. L. Cottrell, *Industrial Finance 1830–1914: The Finance and Organisation of English Manufacturing Industry* (London, 1980), pp. 266–7.

VoB was an early, probably the first, attempt to undertake large-scale production in the gypsum and plaster industry of the United Kingdom. The idea for a company dated from 1864, when it was decided to extend an existing gypsum quarrying and plaster manufacturing business in Newark-on-Trent, Nottinghamshire. The town was one of the main centres for gypsum exploitation, then an important and developing industry in the English East Midlands. Gypsum was mostly converted into plaster of Paris that, according to its colour and purity, was used as the main ingredient of a wide variety of wall, ceiling, pottery and other specialised plasters and of patent cements. Raw, ground gypsum was also used in agriculture, and as a filler and whitener (Mineral Alba). As with plaster of Paris, it was the whitest products which commanded the highest prices, Newark being able to take advantage of the high quality of its, albeit thin, gypsum seams. As the clay overlying the gypsum was usually suitable for the production of bricks, tiles, land drains and other similar ceramics, ancillary brick making was often combined with gypsum extraction despite problems arising from seasonal methods of digging and over-wintering the clay. These clay-based products were sold locally, unlike the best quality plaster of Paris that was exported to other parts of the country and around the world.

By 1860, there were four smallish businesses involved in gypsum quarrying and manufacturing plaster at Newark, mainly based on diggings on and around Beacon Hill.[24] During the early 1860s, the proprietor of probably the largest, William Jacobs, decided to expand and build a large 'manufactory', near the village of Orston about ten miles away. Gypsum had been dug there since the sixteenth century and was considered to be of a very fine quality.[25] The establishment of an integrated enterprise probably dates from July 1860, when the Royal Plaster Works were operated by Messrs Willis and Co. of London. However, it failed in 1864,[26] but its works were acquired by Jacobs. He was joined by James Carter, an auctioneer and stock and share broker from Nottingham. They were to extend the business by opening a large quarry and building new works on a grand scale on land, owned by Carter, just outside the village.[27] The erection of these works began in 1864 and took about two years to complete.

In order to finance the new business, Carter and Jacobs decided to offer shares to the public through a prospectus published on 9 August 1865. It invited applications for 6,000 £5 shares in the Vale of Belvoir and Newark Plaster, Cement and Mineral Co. Ltd (subsequently referred to as VoBNPCM), Newark's first limited liability

[24] F. White & Co., *History, Gazeteer and Directory of the Borough of Derby and the Town and County of Nottingham* (Sheffield, 1861).

[25] R. J. Firman, 'Gypsum in Nottinghamshire', *Bulletin of the Peak District Mining Historical Society*, 2 (1964).

[26] F. White & Co., *Directory of Nottingham* (1864).

[27] It is not known why Carter, the owner of a successful firm of auctioneers, decided to embark on gypsum and plaster manufacture requiring outside finance on such a scale. Presumably, it was simply because of his ownership of the land at Orston, known to be rich in fine gypsum with access to the railway line, and his interest in stocks and shares.

company.[28] Each application was to be accompanied by an initial payment of £1 per share, with a further £1 10s [£1.50] to be subscribed when shares were allotted. As was then usual, the remaining balance of the company's nominal capital was left unpaid.[29] The money raised would be used to purchase:

the Goodwill of the Business, and the Plaster of Paris and Cement Works, situate at Newark upon Trent ... in the occupation of Mr W Jacobs and also for the purpose of purchasing the Buildings, Steam Engines and Plant, and of Clay and other Materials, underlying the Freehold and Leasehold Properties situate at Orston ... belonging to Messrs. Carter and Jacobs and for the Manufacture and Sale of Plaster-of-Paris, Cement, Gypsum, Clay, and other Mineral products.[30]

The prospectus pointed to how the Newark works had been successfully run by Jacobs, who had good connections in the trade and had supplied plaster for the internal decoration of the Grosvenor Hotel, London, 'the International Exhibition of 1862, The Adelphi Theatre, the St James' Hall, a great portion of the Royal Italian Opera House, Covent Garden, and several Mansions and Public Buildings in England, and on the Continent'. It also stated that Carter and Jacobs would retain a large financial interest, that Jacobs would be manager and that the buildings and plant at Orston were new and very extensive:

In immediate contiguity to the Works, there is an almost inexhaustible deposit of the finest and purest Gypsum rocks ever yet discovered, extending over Nine Acres of Land, which will yield at least 30,000 tons per acre, lying at such a shallow depth from the surface as to render the cost of getting them a comparative trifle; there is also upon the upper surface most valuable beds of Clay, which can be manufactured into bricks and other materials. The quality of the Clay for bricks has already been tested, the whole of the several buildings having been erected from bricks manufactured upon the property.

However, the prospectus said little about the likely profitability of the venture.

The demand for the various qualities of Plaster of Paris, Floor Plaster, Alba, Agricultural Gypsum, and Cement is very extensive, in fact, almost unlimited and after careful investigation, a profit of at least £15 per cent upon the capital employed is shown; and it is certain, from the connection and Trade already secured to the Company, that a dividend of at least 5 per cent will be paid the first year. In addition to the large profits realized from the Plaster, Gypsum, and Cement, a further considerable profit will accrue by working the vast beds of clay into bricks, drain pipes, &c., &c. The local demand for bricks and drain pipes (more especially the latter) is very great and combined with the Railway facilities, will ensure large profits from this branch of the business and a plant, kiln, &c., are already erected and complete.

28 In terms of Shannon's classifications, it was a small company (£30,000 share capital of which £15,000 was paid up). Although he does not provide statistics, Shannon implies that a feature of such promotions was that they were either abortive or did not survive long after registration.

29 Shannon, 'The first five thousand limited companies'.

30 NAO: DD.H 167/21, prospectus.

As was then customary, in order to establish a credible limited liability company, promoters were employed or involved in some way. This was primarily a London activity and was usually undertaken by solicitors, or members of the emerging accountancy profession, acting as financial agents.[31] Solicitors were also required to prepare a company's memorandum, articles and other documents required for registration, and the use of a London-based firm made company incorporation much easier. In this case two solicitors, Henry Smith of Westminster and William Newton of Newark were employed.[32] A common technique, verging on deception, was the use of the names of well-known personages to give credence to the venture.[33] Here the proposed directors comprised James Carter and five other notables. They were the local MP Colonel Brownlow Knox; Thomas Godfrey, a Newark banker; G. E. Walker, a Nottingham gentleman; and C. E. Newcomen and A. Moseley, both London barristers.[34] They were each given 600 shares in the company to qualify them as directors if it was successfully floated within one year. Additionally, the two solicitors, Newton and Smith, were each given 700 shares, but they were not to be directors. The company's brokers were to be Carter & Son, the Nottingham firm of one of the vendors.

Public enthusiasm for limited liability joint-stock companies was near its cyclical peak when the prospectus was published.[35] Although slightly confused between the new limited liability company and older joint-stock unlimited companies, the local paper, the *Newark Advertiser* (subsequently referred to as *NA*) nevertheless captured the spirit of the time. One week after the publication of the prospectus, it commented on the establishment of VoBNPCM:

> Joint Stock Enterprise is most certainly one of the havens of the nineteenth century's progress and prosperity, and it has a tendency to destroy monopolies, and pare down inordinate profits, it promotes the public interests in more ways than one. The increasing demand for Plaster of Paris and other preparations EJUSDEM GENERIS and the positive certainty of a market for all that can be produced, takes the company out of speculation and makes it a bona fide business undertaking.[36]

Despite the prospectus being published at an auspicious time, acceptably presented, receiving good local publicity[37] and appearing in the London financial

[31] See J. Armstrong, 'The rise and fall of the company promoter and the financing of British industry', in J. F. Van Helton, *Capitalism in a Mature Economy* (Aldershot, 1990); and Cottrell, *Industrial Finance*, p. 145.

[32] NAO: DD.H 167/20.

[33] L. W. Hein, *The British Companies Acts and the Practice of Accountancy 1844–1962* (New York, 1978), p. 276.

[34] The use of lawyers in this way as 'midwives' was quite common; see Cottrell, *Industrial Finance*, p. 91.

[35] See footnotes 3 and 4.

[36] *NA* (16 Aug. 1865).

[37] *NA* (2 Aug. 1865).

papers,[38] VoBNPCM failed to attract sufficient subscriptions. Unfortunately, the construction of the works was already proceeding, and Carter and Jacobs were committed to the venture. The official opening at Orston took place on 3 April 1866. The *NA* recorded that:

> This took the form of a dinner to which a number of the principal inhabitants of the place, the workmen in the employ of the firm, and several private friends sat down ... The whole village was astir and the bells rung a merry peal in honour of the occasion.[39]

Possibly Carter and Jacobs thought that such an opening and its resulting favourable publicity would have been a useful prelude to a renewed appeal to the public for funds. If so, their hopes were finally dashed by the failure just one month later of Overend, Gurney & Co. Ltd with its associated bad publicity and loss of public confidence in limited liability promotions.[40] In these circumstances, funds had to be raised in another way. This eventually took the form of a limited liability company, as before, but the financial capital contributed was less and drawn from fewer individuals. The intention was to establish effectively a more modest private company,[41] and raise the remaining funds later as the firm's reputation and financial success became known.

The Vale of Belvoir and Newark Plaster Co. Ltd (subsequently referred to as VoBNP) was formed in March 1867. Its purpose was precisely that of its conceived, but abortive, predecessor: to take over Jacobs's Newark business and the much larger developing business of Carter and Jacobs at Orston. Its funds were meagre, being only contributed by the originators, Carter and Jacobs, the owner of a vital lease, James Hobson, and William Newton, the Newark solicitor, who had been persuaded to put up money for the venture in the meantime. The company had an authorised nominal capital of £10,000, with 900 £10 shares issued at par and fully paid. Carter's contribution was valued at £3,000, for which he and his family were allocated 300 £10 shares. Jacobs's contribution was also valued at £3,000 and for which he was to be paid £1,000 in cash together with being allocated 200 shares. He was also to have a salary as manager of £350 p.a. 'with an increase so long as the company pays £15 per cent'.[42] It was further agreed that William Newton, who had financed the building of the works at Orston until then by way of mortgage, would provide further advances and act as a surety to the firm's bankers, Nottingham & Nottinghamshire Banking Co. For this, he was to be given an equity interest of £3,500 – 350 £10 shares – while his £4,000 loan on mortgage was to continue. Finally, James Hobson, the Newark manager of Nottingham & Notts.

[38] NAO: DD.H 167/10–16.

[39] *NA* (11 Apr. 1866).

[40] Also interest rates had been rising since autumn 1865, and some banks and railway contractors had been failing since the beginning of 1866.

[41] Compared with a public company, which had been their intention for VoBNPCM, although there was as yet no legal distinction between public and private limited companies.

[42] NAO: DD.H 167/46.

Banking Co., was granted 50 shares in return for the use of a small field at Orston. In total, therefore, 900 shares were issued at £10 each, which, together with the loan from Newton secured by mortgage on freehold land at Orston of £4,000, provided funds of £13,000. This enabled VoBNP to buy the Trent Works, Newark, from Jacobs for £3,000; and acquire the Orston freehold land, along with its buildings, machinery and plant together with the sinking of a well and the opening of the pits, amounting to £9,500 in total. The new funds also paid for the Orston leasehold land, engine pumps, plant and the opening of the pits there, which amounted to £500 in total. The 'five notables', originally proposed as directors of VoBNPCM to help promote it, did not reappear either as directors of, or investors in, VoBNP.

For a while it seemed that VoBNP would be successful. It quickly expanded and took over another Newark firm in February 1868 – Stocker & Bell – plaster manufacturers who had been threatened with closure. This purchase was financed by issuing 350 more shares to the partners in Hardy & Co., Grantham, bankers and owners of part of the Newark freehold land. Although from that point VoBNP experienced difficulties in raising funds, Hardy & Co. made every effort to support it,[43] in sharp contrast to the negative attitude displayed by Nottingham & Notts. Banking Co.,[44] VoBNP's original bankers.

The company's lack of working and long-term capital was finally recognised by its directors in early 1870. After an investigation of the financial position by Newton (because the books were in an unfinished and incomplete state), it was found that current debts exceeded debtors by £5,941. This was soon resolved. On 17 March 1870 VoBNP issued debentures amounting to £2,941, which were given to Hardy & Co. (£1,442), Newton (£1,000), Carter (£150) and Jacobs (£349) in place of the debts owing to them. This issue of debentures was unusual and ahead of its time,[45] and was only made after advice from counsel as to its legality.[46] Additionally, £3,000 of promissory notes were issued, personally guaranteed by the new debenture holders, to other creditors, including £2,200 to Nottingham & Notts. Banking Co.,[47] VoBNP's former bankers.

Despite these difficulties, and in the hope that some backers would emerge, or that it could be sold as a going concern, VoBNP struggled on until 1873. However, its finances had so deteriorated by then that there was little alternative to liquidation. On 12 May 1873 it was unanimously resolved that VoBNP be voluntarily wound up. Hardy & Co. bought the business and ran it as the Vale of Belvoir and Newark Plaster Co. at Newark until about 1897.[48] They then sold it to R. P. Almond, its general manager, who ran it until 1920 when it finally closed.

43 NAO: DD.H 167/135.
44 NAO: DD.H 167/139.
45 Cottrell, *Industrial Finance*, p. 86.
46 NAO: DD.H 167/127.
47 NAO: DD.H 167/46, p. 41.
48 For an account of VoBNP's activities around 1887, see *Royal Album of Arts and Industries of Great Britain* (London, 1887), pp. 407–14.

Table 1. *Vale of Belvoir and Newark Plaster Co. at liquidation*

Liabilities		*Assets*	
Estimated liquidation expenses	£750	Proceeds at auction:	
		Ortson	£6,500
		Trent Works, Newark	£510
Mortgage	£4,000		
Debentures	£5,972		
Trade creditors	£4,506	Trade debtors	£786
		(Estimated deficit	£7,432)
	£15,228		£15,228

Source: Nottinghamshire Archives Office: DD.H 167/165.

II

It is interesting that, despite not being financially viable from the beginning, VoB existed in various guises for over 50 years. Why attempt to preserve it for so long? Victorian England worshipped success and vilified failure.[49] Not only were new industrial opportunities being recognised, expectations were high. Failure could hardly be contemplated and, if a company started making losses, its directors tended to hang on, hoping that things might improve. Thus, when forced into liquidation, a limited liability company usually had sizeable liabilities (relative to its assets).[50] Clearly, this was the case with VoBNP. Whilst it continued, there was the possibility of raising the necessary long-term finance and, more importantly, of selling the business as a going concern. Probably this explains why, despite its lack of finance, VoBNP paid two dividends. The first was in March 1868, made as a result of the 1867 trading profit of £791 12*s* 1*d*. It amounted to ten per cent, involving a total cost of £784 14*s* 2*d*, and was distributed £284 14*s* 2*d* in cash and £500 by way of £10 shares. A second dividend, also of ten per cent, was paid for 1868. The directors could not have believed that they could justify these payments on the results that had been achieved, but they had to give the impression that the firm was doing well.

As a measure of how long its directors did hold on before liquidation, when the VoBNP was finally wound up in 1873, it had a deficit of £7,432 and debts of more than double the realised value of its assets. Although the liquidator's final accounts do not survive, the situation at the commencement of liquidation and a list of the final shareholders are recorded.[51] These indicate that Newton's original mortgage and the later debentures secured by way of mortgage would be partially repaid, but that trade creditors and shareholders would receive nothing. The estimated position at the time of liquidation is shown in Table 1.

[49] W. Houghton, *The Victorian Frame of Mind* (New Haven, 1957), pp.191–4.

[50] G. Todd, 'Some aspects of joint stock companies, 1844–1900', *Economic History Review*, 3 (1932).

[51] NAO: DD.H 167/165.

The final shareholders comprised the partners in Hardy & Co., James Carter and his family, William Jacobs, James Hobson and five other individual small shareholders who had each acquired their holdings from Jacobs when he had disposed of most of his shares. The liquidation was conducted by a Newark accountant, Thomas John Caparn. He was to 'continue to carry on the business heretofore ... under the direction of the committee herein after named until he is enabled satisfactorily to dispose of same', and that John Hardy, William Newton and James Carter be members of the committee.[52] Later that year, on 16 October, Hardy & Co. bought the works at Newark and Orston as separate lots at auction for £7,010. (James Carter & Son were the auctioneers.)

Dissolutions were then often fraudulent, involving collusion between the officers or managers of the company and the liquidator,[53] and these frequently involved newly formed companies. Shannon generalises to the effect that fraudulent companies were often short-lived and more honest companies long-lived. He quotes a judge, who casually remarked in 1876 that he had 'the usual contest' in his chambers as to who should be the official liquidator, and another, who declared in 1879 that 'I have on the suggestion of my chief clerks ... directed them in no case whatever to appoint any official of the company liquidator. They are always under some improper influences'.[54] In the case of the VoBNP, this was clearly not the case as Hardy & Co. were the main shareholders.

Hardy & Co.'s long-continued support for VoBNP provides a remarkable illustration of the unflinching commitment of a local bank to financing an ambitious and risky local enterprise. Their investment in VoBNP at the time of its dissolution was about two per cent of the bank's total advances and investments.[55] Even more astonishing was their unlimited financial support as VoBNP continued to lose money until at least 1897, when partners in Hardy & Co. finally sold it. This coincided with the sale of their bank to Leicestershire Banking Co. Ltd and shows the size of its losses. When clearing the books of account for the take-over, partners in Hardy & Co. wrote off losses of £20,000 for VoBNP against their capital accounts of £90,000.[56] No doubt absorption sooner or later was inevitable, given the length of the agricultural depression and the severity of it in the East Midlands.[57] Nevertheless, this commitment to VoB must stand in remarkable contrast to the Hardys' otherwise highly successful banking business, founded on financial common sense, prudence and skill in balancing risk and return.

52 NAO: DD.H 167/163.

53 In both Shannon, 'First five thousand limited companies' and 'Limited companies of 1866–1883'.

54 Shannon, 'Limited companies of 1866–1883'.

55 On 1 Jul. 1873, when VoBNP went into voluntary liquidation, they were owed £715 4*s* 7*d* on current account (NAO: DD.H 167/81) plus debentures valued at £1,422 (HSBC Archives, London [hereafter HSBC]: AF5). These compare with total credit balances (advances, etc.) of £221,926 and investments of £51,412 for the entire bank (HSBC: AF2/8).

56 HSBC: 3/5.

57 W. F. Crick and J. E. Wadsworth, *A Hundred Years of Joint Stock Banking* (London, 3rd edn, 1958), pp. 270–1.

It must have also been thought, at the time anyway, that the reorganisation of VoBNP's finances in 1870, which effectively resulted in the creation of fresh long- and medium-term loan capital of £5,941, was sufficient to place it on a firm financial footing. However, the large losses that were soon incurred ensured that this would not last. A number of factors combined to wreck VoBNP. The market for gypsum and clay products had clearly deteriorated and, although there was no large amount of stockpiling and a strong demand for bricks, prices were undoubtedly hit.[58] The rising costs of freight made it particularly difficult for the VoBNP as it was forced to absorb these within its prices.[59] The greatest difficulties were in extraction and production, and related to the failure of the pumping equipment, resulting in flooding of the gypsum mines at both Orston and Newark.[60] Particularly annoying for Jacobs, its manager, given his earlier reputation, was the frequency of complaints from customers over impurities, mainly grit, in his products,[61] and the emerging superiority of the production methods of Cafferata & Co., VoBNP's main competitors. Although it is not possible to gauge the severity of these difficulties, the overall picture was that, given the existing prices for gypsum products, VoBNP could not cover its costs. This remained so whilst, unlike many other firms, it was dependent upon existing manufacturing methods and had to use the more expensive underground mining techniques practised at Orston and Newark.

Although the early accounts reported a profit, VoBNP never made profits as they were then normally understood (see Table 2). Profits for 1867 and 1868 were reported but from 1869 to the year of its liquidation it was stated that VoBNP made a loss.[62] Accounts for 1867, 1868 and 1870 contain a number of technical errors of principle and, if profits had been computed correctly on the inventory method, losses would have been disclosed for these years as well.[63] Accounts for manufacturing and mining ventures were usually prepared according to the inventory method, where profit was the excess of income over all running costs adjusting for the difference between the valuation of stock, plant, etc., at the beginning and end of the period.[64]

[58] Jacobs had declared in a letter to a customer on 17 Dec. 1869 that there had been 'a fearful amount of losses this year. Never in the whole of my time in the trade have I experienced anything like it' and thereafter there were urgent pleas to customers to reorder and references to 'the lean trade' and 'the horrid scarcity of money' (NAO: DD.H 167/107).

[59] NAO: DD.H 167/107.

[60] NAO: DD.H 167/46.

[61] NAO: DD.H 167/107.

[62] NAO: DD.H 167/65–73.

[63] Although the accounts were prepared in a way that is similar to the inventory method, opening stock was excluded from the profit calculation. It also contained the amounts due from debtors and owing to creditors including the bank overdraft. In order for the accounts to balance, the payments and cash received figures for the year must have been appropriately adjusted. Because the back-up papers and ledgers no longer survive, it is only possible to speculate as to how this adjustment was made. Possibly what was stated as cash received during the year plus debtors equalled sales made.

[64] It was common for such accounts to be misleading and over-optimistic. They were not, as usually supposed, conservative and they did not understate profits as a general rule. As there were then no particular rules or conventions as to how valuations should be made and how capital expenditure

In 1871 it was realised by VoBNP's directors that the audited accounts were incorrect in some way. Until then the auditor had been James Hobson. No doubt he was considered to be eminently suitable because of both his banking expertise and being a shareholder. The appointment of auditors who were members, but not officers, of a company was encouraged by the 1845 Company Clauses Consolidation Act. However, on 19 October 1871 the directors resolved that 'Mr Hardcastle the accountant provided by Mr Newton be authorised to audit the company's accounts commencing with the printed balance sheet of the 31 December 1868'.[65] It is not known from where Hardcastle came from or where he practised. As his name does not appear in the Nottinghamshire or Lincolnshire trade directories and as his fee was considerable (£100), he may have come from outside the district, possibly London.

Hardcastle revised both the way in which profit was calculated and the stock valuation. Profits to 1871 were re-computed and the assets were valued by an independent valuer, a Mr Hickling (later to become a partner in Carter and Hickling, valuers). The effect of this and the drastically reduced valuations by Hickling was that an adjustment had to be made to the 1871 accounts for accumulated losses of £9,708 16*s* 10*d*.[66] These arose from: trading losses during 1870 and 1871 (£4,963 13*s* 1*d*); a loss in writing down the value of land, buildings and plant from £15,123 5*s* 10*d* to £11,000 (comprising Orston Works £9,000 and Trent Works, Newark £2,000), amounting to £4,123 5*s* 10*d*; and, third, an overpayment of dividends on the 1868 profit of £621 17*s* 11*d*. From 1871 the accounts were 'correctly' prepared according to the principles and conventions of the inventory basis.

Company minutes do not refer to the circumstances that led to the re-examination. They merely record that Hickling acted as the valuer in place of Carter & Co. They also do not refer to the circumstances leading to the replacement of Hobson as auditor, or state that the previous accounts contained errors of principle materially affecting the reported profit and whether the firm should continue to trade.

The realisation in 1871 that all was not right with the accounts raises the question of the extent to which the directors and their bankers were themselves misled by them. For example, even if the accounts for 1867 and 1868 were to be believed and VoBNP was then profitable, actual cash flows were negative.[67] Until the events in 1871 and the revision of the accounts, we can only presume that they were misled.

should be recorded, the reported profit was very much determined by the directors and managers. For example, stocks might be valued at selling price and not marked down by as much as prudence would allow. This is an example of what Brief termed 'nineteenth century accounting error'. See R. P. Brief, 'Nineteenth century accounting error', *Journal of Accounting Research*, 14 (1965).

65 NAO: DD.H 167/46.

66 NAO: DD.H 167/65–72.

67 See Table 1 which shows that by the end of 1869 total overdrafts had reached £2,036.

Table 2. *Profit and loss accounts and balance sheets (rounded to the nearest £)*

Profit and loss account	*1867*	*1868*	*1870*
Debits			
Opening stock	–	–	2,467
Payments (detailed)	5,732	16,335	11,999
Trade creditors	1,325	5,120	2,772
Balance	815	1,388	1,371
	7,872	22,843	18,609
Credits			
Balance from last year	–	31	74
Cash received	5,535	14,428	12,173
Trade debtors	1,346	4,070	3,036
Stock at various works as per valuation	991	4,314	3,326
	7,872	22,843	18,609
Balance sheet			
Shares – fully paid	9,000	13,000	13,000
Mortgage	4,000	4,000	4,000
Bank account	983	–	–
Trade creditors	1,325	5,120	2,772
Balance of P & L	815	1,388	1,371
Debentures	–	–	5,973
	16,123	23,508	27,116
Purchase of freehold, leasehold, land, buildings, plant, business at Newark and amount expended thereon to this day	13,786	15,124	23,221
Trade debtors	1,346	4,070	3,036
Stock on hand	991	4,314	3,326
less: opening stock			2,467
	–	–	859
	16,123	23,508	27,116
	1,871	*1,872*	*1,873*
Debits			
Opening stock	3,325	2,098	2,098
Payments (detailed)	11,390	10,590	2,302
Cash	–	–	31
	14,715	12,688	4,431
Credits			
Rents	55	–	–
Sales	12,112	8,428	1,805
Closing stock	2,098	2,098	2,098
Cash	–	–	29
Loss	450	2,162	499
	14,715	12,688	4,431

Table 2. *(Continued)*

Profit and loss account	*1867*	*1868*	*1870*
Balance sheet			
Shares – fully paid	13,000	13,000	13,000
Mortgage	4,000	4,000	4,000
Creditors	2,887	4,117	4,432
Debentures (and interest)	6,010	5,973	5,973
Unclaimed dividends	25		
	25,922	27,090	27,405
Fixed plant	11,000	11,000	11,000
Accumulated loss to 1871	9,708	9,708	9,708
Loss – 1872		2,156	2,156
– 1873			538
Cash	92	31	30
Trade debtors	3,024	2,097	1,875
Stock	2,098	2,098	2,098
	25,922	27,090	27,405

Notes:

1 The accounts for 1869 have not survived.

2 From 1868 bank loans are included in Creditors.

3 The 1870 accounts include stock debited to profit and loss for the first time and deducted from the closing stock on the balance sheet.

4 The accumulated loss to 1871 is described on the final balance sheet for 1871 as 'Extraordinary expenses in baring rocks & pumping flooded mines etc'. In later balance sheets and the draft profit and loss account for 1871 it is described as a loss.

5 For 1872 and 1873 the opening and closing stocks are at similar valuations.

The accounts were printed – presumably to impress potential investors they still hoped the VoBNP could attract (Figure 1).

There is some evidence to suggest that Jacobs, who was not a director, was not misled and had limited faith in the business from the beginning. He was the only person with the necessary experience and, more than anyone else, he must have recognised the fragility of the assumptions on which the original VoBNPCM prospectus had been based. It is interesting to observe how he extracted himself financially as much as possible from the scheme without undermining it. The terms of the acquisition of his original business were that he was partially paid off (to the extent of £1,000). He was not designated a director of VoBNP, merely the manager. Most significant of all was that he gradually reduced his investment. In November 1867 he sold ten of his shares for £10 each (i.e. at par) to James Hobson, an existing shareholder. Shortly afterwards, he sold a further ten shares and in June 1869 25 shares, all for £10 each, their par value. The latter transaction was a

BALANCE SHEET

OF THE

Vale of Belvoir and Newark Plaster Company, Limited,

DECEMBER 31, 1870.

PROFIT AND LOSS ACCOUNT.

Dr.	£	s.	d.	Cr.	£	s.	d.
To Stock in hand at the various Works as per Valuation, Dec. 31, 1869	2467	1	7	By Balance from last year	74	17	2
,, Payments during the year as per Accounts, Wages, &c.	11099	4	8½	,, Cash received during the year as per Accounts, &c.	12173	2	4
,, Accounts due to Creditors	2771	17	11½	,, Accounts due to the Company	3036	3	1
,, Balance	1371	9	5	,, Stock in hand at the various Works as per Valuation	3325	10	7
	18609	18	2		18609	18	2

GENERAL BALANCE.

	£	s.	d.					£	s.	d.
To Capital—1300 Shares at £10 each	13000	0	0	By Freehold, Leasehold, and other Works at Orston and Newark				23221	0	6½
,, Mortgage Accounts	4000	0	0	,, Sundry Debtors				3036	3	1
,, Debentures	5972	14	11	,, Valuation for year ending 1870,	3325	10	7			
,, Due to Creditors	2771	17	11½	do. 1869,	2467	1	7	858	9	0
,, Balance of Profit and Loss	1371	9	5							
	27116	2	3½					27116	2	3½

Figure 1. *Balance sheet of the Vale of Belvoir and Newark Plaster Co. Ltd, 31 December 1870*

particularly beneficial deal as the only other share transfer during that year (April 1869) was of 50 shares for 5*s* in total, reflecting the demise of the firm.

Would VoB have been successful had its formation not coincided with the Overend, Gurney & Co. Ltd debacle in 1866? Whilst the creation of VoB was the result of overwhelming optimism for such ventures brought about by limited liability, the first attempt to finance VoBNPCM by means of a public prospectus in 1865 undoubtedly failed because of already developing scepticism over the extravagant claims commonly then generally made in prospectuses. There were no guidelines for the content of promotional literature and between 1847 and 1867 there were no statutory controls over prospectuses.

Misleading and fraudulent prospectuses were common.[68] Among the factors which may have deterred potential investors from VoPBNPCM were the claims of an unlimited demand for gypsum products, that the land at Orston would provide

[68] Robb, *White Collar Crime*, ch. 5. In 1867 a parliamentary select committee was set up to investigate this and other matters. Testimony revolved around two things: the factual inaccuracies contained in prospectuses and the undisclosed arrangements with promoters, underwriters and others to drain off material amounts of money subscribed by the investors (BPP, 1867 (329) X, 393, Select Committee on Limited Liability Acts, *Report*). Although the committee made no recommendations concerning either problem, the new Act addressed the second problem. See Hunt, *Development of the Business Corporation*, pp. 302–4).

the company with an overall profit of at least 15 per cent, and the suggestion, based on 'expert advice', that the estimated reserves were 50 per cent per unit area greater than any other part of the Vale of Belvoir gypsum workings. The nature of the advice may also have been questioned since it seemed to rest on a statement by Robert Lineker, which was addressed to no one, remarkably brief, and lacking any indication of the evidence on which its conclusions were based (see Appendix). Lineker was, at face value, well qualified to write an independent assessment. He had been one of a small group of independent gypsum quarriers and plaster and brick manufacturers based in Newark during the 1850s and 1860s and was not a competitor. However, he was not one of the most successful. Between 1856 and 1860 he had financial problems that forced him to sell most of his property and, by 1860, his business had closed.[69]

Subsequent efforts to raise the necessary finance from outside parties were undoubtedly affected by the unpopularity of limited liability, which was necessary if they were to help. It should not be thought that the venture was a complete 'white elephant', however, as after Hardy & Co. sold the business in 1894 production of both gypsum and bricks continued for another 26 years. Possibly a change to economic viability occurred around 1894 when VOB was bought out by its general manager.[70]

III

The case of the various VoB companies demonstrates the inadequacies of financial information, in terms of both annual accounts and prospectuses, required to support the financial management of the new limited joint-stock companies of the 1860s. By 1865, the necessary standard of financial reporting and the related regulations were clearly not in place, and wide-ranging types of failure must have been inevitable. Whilst the Overend, Gurney & Co. Ltd case, and others, may have been fraudulent, that of VoB suggests that there must have been many failures arising from simple naivety. Financial judgement must have been quite a new skill that was required instantly of many Victorian entrepreneurs and investors with the general coming of limited liability that allowed the separation of ownership and control.[71]

[69] It is interesting that in Nov. 1859 a judgement was made against Lineker for a debt of £332 10*s* to William Newton. See NAO: DD.H 167/9.

[70] R. P. Almond, the former general manager, continued to trade under the name of VoBNP. Under his management, during which he concentrated on the, hitherto underdeveloped, properties at Balderton, mid-way between Newark and Orston, the business was apparently successful. Unfortunately, there are insufficient financial or other archives to analyse meaningfully the firm's history or the reasons for its survival.

[71] M. M. Postan has written: 'A social base to the capital market of the mid-century was provided by the new class of "pure" investors, the people who had learned to put their money into profitable use, and to decide that use by the sole criterion of interest and whose expectations of income were very largely a matter of yields and quotations. It is their activities that imparted to the behaviour of capital all its characteristics of a perfect capitalist factor of production': 'Recent trends in the accumulation in capital', *Economic History Review*, 6 (1935).

VoB illustrates the errors of judgement that occurred with these newly discovered opportunities for financing an ambitious enterprise. The drawing-in of Newton and the partners in Hardy & Co. to support VoBNP contrasts with Jacobs's gradual withdrawal. Whilst the former, along with Carter, were no doubt seduced by the prospects, prestige and potential of the new limited liability companies, they did not fully recognise the implications. This contrasts with the gradual withdrawal of Jacobs, the only individual in this case with a practical understanding and experience of the realities of gypsum quarrying and manufacture of its products. His practical insights and common sense prevented him from being overtaken by the excitement of limited liability and allowed him ultimately to profit from the sale of his business.

The case of VoB also illustrates the need for good financial information for the new limited liability companies. It was required to inform the financial and business decisions that had to be made by both the 'new class of "pure" investors'[72] and the new breed of managers and directors arising from the separation of ownership and control. It supports the view that standard procedures for calculating profit were then not in place, with the consequence that major 'errors of principle' at a local level could be, and were, made.

Appendix

Sir:-

I herewith hand you the enclosed Report of the Plaster Works at Orston which I have made according to your request.

There is in the large Field seven feet six inches of clay in depth, which can be made into Bricks and Tiles at the rate of Four Million per Acre. This can be taken off at Six Pence per Yard which will reduce the price of Stone getting. There is in the depth of Sixty Feet from the top soil ten beds of Plaster Stone averaging fourteen Feet in One Yard from top to bottom of Sixty Feet in depth, that will turn out Six Tons and a half in One Yard. There are Thirty-two thousand Tons and a Half in One Acre as near as can be estimated. This can be raised at Five Shillings per Ton, including all Apparatus, after the First Pit is taken out.

Yr. humble svt. Robt. Lineker. over

In the small Field there are six Beds of White Plaster Stone, which will turn out Three Tons and a Half in One yard from the top soil to the bottom, of Forty Five Feet in depth. This can be raised at Four Shillings per Ton or Eleven Pence per yard including all Apparatus after the First Pit is taken out.

The Quality of the Plaster Stone I find in both fields is as Good as any in the Neighbourhood of Newark or anywhere else.

[72] ibid.

If it is required to raise the depth of Fifteen Feet only, there would be Two Tons in One Yard. If the Seven Feet Six Inches depth of Clay could be manufactured into Bricks and Tiles in the Large Field, the Clay could be taken off at Six Pence per Yard; the Seven Feet Six Inches of Plaster and Clay Marl could be raised and turned over at the cost of Two Shillings per Ton to the mouth of the Pit.

Yr. humble svt. Robt. Lineker.