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The Accounting Profession in the United States*

BY J. EDWARD MASTERS, C. P. A.

It is obviously impossible to give a full and detailed history of the accounting profession in the brief time (thirty minutes) at my disposal this evening, and I shall therefore of necessity only attempt to touch upon the more important events and notable achievements which stand out as landmarks in the history of the profession in this country down to the present time.

In looking back over the development of the profession in the United States, particularly during the past twenty or twenty-five years, and trying to measure it by the familiar method of comparison, the question arises: Is there any other profession either in this or any other country in which there has been an equal progress in the same length of time? I doubt if there is.

Accounting as a profession in the United States was probably unknown prior to 1870, and from that time to 1885 there were only a few individual practitioners and small firms—and even these few were not really well-trained accountants, but were what were commonly known as “expert bookkeepers.” The practice during this period consisted mainly of investigating embezzlements, opening and closing books, examination of accounts in dispute or litigation and adjusting incomplete or incorrect accounts. Little, if any, auditing was done and certainly the broader and more important duties and responsibilities of the accountant of to-day were not then performed or assumed.

The rapid growth of business during the past twenty-five or thirty years, especially the formation of large concerns whereby immense sums of capital were concentrated and employed in certain undertakings, very materially increased the demand for improved bookkeeping methods and systems and particularly the services of capable accountants. For the profession to keep pace with this demand was no small matter when we realize that properly qualified accountants cannot acquire the necessary education and training short of several years. The general develop-

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ment of accounting in the United States, say from 1885 down to the present time, is marked by three steps of special importance :

1. Organization of accounting societies.
2. Legal recognition through the enactment of C. P. A. laws by state legislatures.
3. Educational opportunities and growth.

ORGANIZATION OF ACCOUNTING SOCIETIES

It was perhaps only natural that the universally accepted principle, "In union there is strength," should be adopted in this case. Hence in 1887 organization of accountancy in the United States had its birth, largely as a result of the interest and activities of Mr. Edwin Guthrie, who that year spent some time in the United States, together with Mr. John Francis, of Philadelphia, and a few other accountants of New York and Boston. It was on the 20th day of September, 1887, that the American Association of Public Accountants was formally incorporated under the laws of New York, and while this is still the name of our national body, the original form of the organization has been materially changed. In the beginning it was a national body with direct, individual membership, whereas the membership now consists, primarily, of the state societies.

Ten years after this first organization was formed (that is, in 1897), the first state society was started, due largely to local needs requiring local societies to assist in the work of building up the profession. One of the important results of these early organizations was their influence towards the second notable step in the march forward, that being legal recognition in the form of state laws regulating the profession and creating the title or degree of certified public accountant.

The development and progress of the profession is closely associated with our national organization, so let us for the moment follow its history and some of its achievements. In July, 1902, at a meeting of the Illinois Association of Public Accountants, Mr. George Wilkinson read a paper in which he set forth the great need of establishing a definite relationship among the local state societies, which at that time were isolated and powerless to act in affairs of a national character. He suggested a plan for the co-ordination of all existing organizations by the formation of a federation of societies of public accountants.

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A committee was formed and a meeting arranged for at Washington, D. C., in October, 1902, consisting of prominent accountants from different parts of the country, when the "Federation of Societies of Public Accountants in the United States of America" was formally organized. This awakened a much deeper interest in the profession and stimulated its growth. As a result of the untiring efforts of certain members and the support of many others the next important event was made possible.

In 1904 the first *international* congress of accountants was held in St. Louis, and attended not only by delegates from the different state societies but also by representatives from Canada, England, Scotland and Wales. At this congress a plan was evolved whereby the next year, 1905, the two national societies, the American Association of Public Accountants and the Federation of Societies of Public Accountants, were united, the name and seal of the American Association being retained, but a new constitution drawn up and adopted, having for its motives:

1. The bringing together in friendly contact the different state societies and members of the profession.
2. The encouragement and unification of C. P. A. legislation.
In this organization the principle was adopted that the national organization should not interfere with the local interests of the different states, but at the same time should co-operate with the constituent societies in all practicable ways.

Since 1904 the American Association of Public Accountants has held annual conventions in the fall of each year in different states. The opportunity they have afforded for accountants from all parts of the country to meet and become better acquainted and exchange ideas on the numerous accounting principles and conditions, some of which were new as applied to the situation in the United States, has been of immeasurable benefit in establishing standards and ideals, reconciling differences of opinion, cementing the professional bonds of state societies and individuals, and last, but not least, in bringing to the attention of the business world right methods and practices, not only in accounting matters but also in the organization and conduct of business, for it is with business that the accounting profession goes onward hand in hand.

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One of the best indications of the progress of the profession to a higher level is that during, we will say, the last ten or twelve years the public has relied more and more on the accountant for advice and guidance in business matters, quite apart from those of a strictly accounting nature. The growth in numbers has been rapid considering the rather limited educational advantages and opportunities to obtain the necessary experience. We have no exact data as to the total number of practising accountants, including those not certified, but the steady increase in the membership of the American Association of Public Accountants gives a good idea of the growth. At the time of its original incorporation in 1887 the membership was less than 100, and in 1905, when it combined with the federation, the total was 597, and now it is approximately 1,100, having almost doubled in the last ten years.

There are many accountants not members of our state or national societies and who are not C. P. A.'s, the number probably far exceeding those that have obtained the degree.

LEGAL RECOGNITION

The first C. P. A. law was passed by the state of New York in April, 1896—second by Pennsylvania in 1899—third by Maryland in 1900—fourth by California in 1901—fifth by Washington in 1903—sixth by Illinois in 1903—seventh by New Jersey in 1904.

Since 1904 similar state laws have been passed in rapid succession, the year 1914 being a record in that six states enacted such laws, namely: Arkansas, Kansas, Indiana, Iowa, South Carolina and Texas, making a total number of thirty-nine states which now have C. P. A. laws, leaving only nine without—Alabama, Arizona, Idaho, Kentucky, Mississippi, New Hampshire, New Mexico, Oklahoma and South Dakota.

Although the laws of the different states vary in some respects, they are uniform in regard to the following particulars:

1. The title of C. P. A.
2. A board of examiners to pass upon applicants.
3. The penalty—an unauthorized person using title or initials "C. P. A." is guilty of a misdemeanor—which is punishable by fine or imprisonment.

The fact that during the last nineteen years thirty-nine states have put C. P. A. laws upon the statute books is another striking

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illustration of the steadily increasing activities of the profession and represents a great deal of time and effort by those individual accountants who have fathered the legislation in the respective states.

As might be expected, not all the laws enacted are ideal, and while much has been done toward uniformity there is still great need for improvement in the standards, qualifications, etc. In this connection a difficult problem confronts us owing to the limitations of state laws. An accountant's practice almost invariably extends beyond the particular state in which he resides and from which he obtains the C. P. A. degree, and therefore the rather complicated question of state rights, or rather control, arises—hence the desirability, and we may say almost the necessity, in the near future, of some form of national registration or granting of the degree. The accomplishment of this will doubtless be the next important step in this direction.

In addition to legal recognition in the form of C. P. A. laws a few states have passed acts requiring the audit of certain kinds of business. For instance, the legislature of Massachusetts in 1910 made it compulsory for all savings banks to be audited once a year by a certified public accountant. This requirement has since been modified to the extent that the bank commissioner can make the audit if so desired by the bank. The statutes of Massachusetts further require an auditor's certificate or report in the following cases:

1. To the financial statements of all concerns borrowing money from savings banks.
2. To the annual report of all corporations doing business in the state, which must be filed with the secretary of the commonwealth. The auditor in these cases is not required by the laws to be a C. P. A., although there is a growing tendency to select the accountant with the degree.

There has been a marked tendency during the past few years on the part of the general public and government authorities to avail themselves of accountants' services in safeguarding the interests of investors and in regulating business, which is still another evidence of the growth of the profession and the im-

portant position it has attained. It is only in comparatively recent years that it has become the practice of bankers to require in many instances the accountant's certificate to financial statements in connection with the flotation of securities or the granting of credit, and also to see that the auditor's certificate is attached to published reports to stockholders and others.

EDUCATIONAL OPPORTUNITIES AND GROWTH

As every institution, in order to succeed, must be built on a sound foundation, so it is with our profession, the groundwork being education. Those members practising in the earlier days had very limited opportunities in the United States to obtain the particular education to fit them for the work; there were no schools and very little literature.

About 1892 the American Association of Public Accountants started in New York a small school for the study of accountancy which, however, was not long continued.

In 1900 Mr. Charles Waldo Haskins organized classes for the study of accountancy subjects at the school of commerce, accounts and finance of the New York University.

About this time certain members of the Pennsylvania Institute of Certified Public Accountants started evening classes for the study of accountancy and for the preparation of candidates for the C. P. A. examinations. These classes were afterwards turned over to the Wharton school of accounts and finance of the University of Pennsylvania.

Certain colleges and universities had previously started departments for the study of commerce and finance, the first being that of the University of Pennsylvania established in 1881. To these departments have been added in many instances accountancy courses, until now nineteen of our colleges and universities are teaching the subject, besides numerous private schools, and there are in the neighborhood of from 10,000 to 15,000 students enrolled. In the development of these schools many of our members have devoted much of their time at considerable self-sacrifice, and to these able and faithful pioneers the profession is greatly indebted. As a result we have not only a profession but a learned one.

Along with the development of the profession and the educational progress came the official publication, *THE JOURNAL OF*

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ACCOUNTANCY, which was first started in 1905. It is issued monthly and the present circulation is about four thousand.

To bring the subject down to the present moment, this occasion marks the first joint meeting of the national bodies of accountancy in the Dominion of Canada and the United States of America. May it be the beginning of a closer affiliation of the profession in the two countries, thus assisting to fulfill even better in the future that which is required of us, and to make our profession of still greater importance and usefulness to the business world.