Comparison of the professional standing of the certified public accountants in the United States with that of the chartered accountants in Great Britain

Edwin Joe DeMaris

The University of Montana

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A COMPARISON OF THE PROFESSIONAL STANDING OF THE
CERTIFIED PUBLIC ACCOUNTANTS IN THE UNITED STATES WITH
THAT OF THE CHARTERED ACCOUNTANTS IN GREAT BRITAIN

by

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B. A. Whitman College, 1942

Presented in partial fulfillment of the
requirement for the degree of
Master of Arts

Montana State University
1950

Approved:

[Signatures]

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CHAPTER I

SOME CONSIDERATIONS AND OBJECTIVES

Accounting is the newest and at the same time the least known of the more important professions. Indicative of the accounting profession's failure to make an impression in the United States is the fact that British and American encyclopedias all list the national professional societies of the two venerable professions of law and medicine but make no mention whatsoever of the corresponding national association of the accounting profession, the American Institute of Accountants, which has been in existence more than sixty years. Despite apparent neglect, at least as far as publicity is concerned, accountants have carved a special niche for themselves in our complex world of corporations. Fortune has recognized the American accountants' position with the following comment: "Today it is no overstatement to say that there are preeminently three professions upon whose ethics as well as upon whose skill modern society depends: law, medicine, and Certified Public Accountancy."¹

Accounting like most other professions appears to have just "grewed up" like the proverbial Topsy of Uncle Tom's Cabin. The barber of bygone days became the doctor, the

pleader in the king's court became the lawyer, and the lowly scrivener, armed with Pacioli's double-entrism, became the professional accountant of today.

But, while accountants the world over use the same tools of analysis and similar methods of recording transactions, the accounting profession in each of the various countries wherein it exists has not achieved the same place in their respective national societies in terms of prestige, economic power, and degree of acceptance by other groups in society.

It cannot be disputed that the country in which the profession of accountancy has achieved its highest position is Great Britain. The British chartered accountant can only be compared with the lawyers of our country insofar as professional standing is concerned, and if we consider solely the matter of integrity we would find that the chartered accountants are easily the equal of any organized body, professional or otherwise, in the United States.

This paper is concerned with explaining the high position achieved by the chartered accountant and comparing the professional training, standards, services, and achievements of the certified public accountant of our own country with those of his British counterpart. Also, some attention will be given to the problem of discovering possible means of
strengthening the position of the American certified public accountant of tomorrow.

To provide a basis for comparing the achievements of the chartered accountant and his American professional counterpart it will be necessary first to mention briefly the history of the accountant and more particularly the history of professional accounting societies, for little in the way of professional status was achieved by individual practitioners prior to the establishment of the professional societies. Consideration will be given to the variances in accounting practice between the two countries, and to the training of new members taken into the profession.

It will be of particular importance to measure the degree of legal basis behind the practice of public accounting in the respective countries. By "legal basis" is meant the extent of laws and regulations upon which the accountant can base accounting standards which, if challenged, can be supported not only by professional opinion but by weight of law. It will be shown conclusively that in no small measure the failure of the certified public accountant to emulate his British fellow can be attributed to a lack of legal basis in state and Federal statutes to augment the American accountants' hand against groups wielding decisive economic power.
Finally the writer will attempt to surmise what future attainments, if any, may be expected of the professional accountants in their respective English-speaking countries.
CHAPTER II
DEVELOPMENT OF PROFESSIONAL SOCIETIES

Accounting in some form has been practiced by mankind for many centuries. Early methods consisted mostly of listings of transactions of various kinds or descriptions of property in narrative form. An example of such a treatment is the Domesday Book, a listing of crown lands and taxes due therefrom, prepared for William the Conqueror in 1086.

Modern double entry bookkeeping was developed in Italy and the principles were first summarized by Frater Lucas Bartolomeo Pacioli dal Borgo in his book *Summa de Arithmetica, Geometria, Proportioni et Proportionalita*, published in Venice on November 10, 1494. This work is a landmark in the development of accounting, for double entry bookkeeping is now in almost universal use and the principles laid down by Pacioli have been a part of virtually every book on accounting since his notable contribution.

It must be understood, however, that the setting down in writing of accounting principles did not create the

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1 The brief historical notes in this and succeeding paragraphs have been taken from Chapter IV (Origin of Present Accounting Principles) of Kenneth MacNeal's *Truth in Accounting*, Philadelphia: University of Pennsylvania Press, 1939, pp. 58-59.

2 The English translation of this title reads "Everything about Arithmetic, Geometry and Proportion."
accountant per se. The scriveners or bookkeepers continued their uninspiring record keeping and the beginnings of professional accountancy occurred many decades later. History provides us with a few glimpses of the transition from bookkeeper to public accountant. For example, in Milan, Italy, a scale of fees for accountants was established in 1742. Holden's Directory of London, Westminster and Southwark, published in 1811, lists some twenty-four individuals as accountants. Despite such instances it seems clear that little progress was made in the professionalizing of accounting until the middle of the nineteenth century and further, that the development in the profession at that time was confined exclusively to the British Isles.

Development of Professional Accounting Societies in Great Britain. Concurrently with the Industrial Revolution

Writers on the history of accounting are unanimous in the opinion that the public accountant as we know him today hardly existed prior to this time. For example, L. R. Dicksee, former professor of accounting at the University of London, comments on this as follows: "It seems clear, therefore, that there was very little professional accountancy in London before the 19th century ... Indeed, little progress was made by professional accountancy in Great Britain, or elsewhere, until the middle of the 19th century, when (so far at least as Great Britain is concerned) it received a great impetus from the growth of limited liability companies, and a little later from the Bankruptcy Act, 1869, which to a very large extent withdrew the administration of insolvent estates from the hands of public officials." Lawrence Robert Dicksee, "Accountancy and Accountants," Encyclopedia Britannica, 15th edition, I, 102-4.
in England, which greatly increased the size of the business unit and brought to the fore an incorporated type of business organization inherently complex and large in size called the joint-stock company, came the development of the public accountant. For, with the expansion of business enterprises, the need for tremendous amounts of capital became paramount and this need brought into existence the limited liability companies, which in turn made the investors, the creditors, and the company managers separate and distinct entities, and thereby created the necessity of affording protection to the investing public in whose hands lay ownership divorced from active control of corporate affairs. Thus the stage was set for the independent examination of financial records by persons skilled in accounting and auditing, and the preparation of financial reports to be submitted to the passive owners that they might judge if the management of their corporation was in capable hands.

In 1854 the public accountants in Edinburgh, Scotland, organized the Institute of Accountants. The following year the Institute of Accountants and Actuaries was founded in

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4 Facts about history of Scottish and English accounting societies were taken from the following source: Norman E. Webster, "Background of the New York C.P.A. Law of April 17, 1896, and its Subsequent Amendments," The New York State Society of Certified Public Accountants Fiftieth Anniversary, 1897-1947, pp. 30-33.
Glasgow. In 1867 the Society of Accountants was established in Aberdeen. These Scottish societies were all incorporated by Royal Charter.

In England the Institute of Accountants was formed in 1870. Subsequently in 1880 this society was incorporated by Royal Charter as The Institute of Chartered Accountants in England and Wales. In Ireland the Institute of Chartered Accountants in Ireland was incorporated in 1888.

The fact that these professional accounting societies were incorporated was of great importance for the reason that under British law there is no restriction on the right to practice as an accountant. British law courts, however, protected the designation of the members of the incorporated professional bodies as "chartered accountants" in a series of court decisions so that the use of the title "chartered accountant" has been confined exclusively to the members of the accounting societies mentioned above.

During this period of the organization and development of public accounting societies, it should not be forgotten that there was much regulatory legislation including the beginning of a series of Companies Acts in 1844 and other enactments such as: Regulation of Railroads Act, 1879; District Auditors Act, 1879; Building Societies Act, 1896; Industrial and Provident Societies Act, 1893; Trustee Savings
Act, 1893. These acts both stimulated the growth of and strengthened the accounting profession in that the various measures called for the appointment of independent auditors which while increasing the public responsibilities of accountants (usually chartered accountants, though the acts did not mention them by name) also increased their power and prestige. Subsequent acts, enhancing even further the position of British accountants, will be discussed in detail under the section entitled "Legal Basis of the Accounting Profession in Great Britain."

Development of Professional Accounting Societies in the United States. In the United States, as in Great Britain, the development of accounting paralleled the growth of large scale enterprise and the corporate form of business organization. When business enterprises were modest in scope and conducted by individual proprietors, the accounting problems, when they arose, were probably handled by the proprietors themselves. That the quality of judgment of the individual proprietors on accounting matters varied widely cannot be doubted but where the business unit was individually owned the most erroneous set of accounting records deceived at most the proprietor, the architect of their inexactness.

When business enterprise, employing the corporate form, became large, business transactions became more complex, duties
had to be divided, and the individual proprietor gave way to the management group and investor group. The investor group during the early industrial development of the United States included many British capitalists and thus it was a natural development from an established British practice, that of having auditors confirm the representations of management, became a part of accepted American business practices. Thus the accounting profession took root in the United States as an outgrowth of a profession already established abroad and as a result of this all public accounting in the United States was done at first by branches of British accounting firms, who had followed British investments here that they might watch over them.

It is believed that prior to the 1880's there were few public accountants in the United States as we know them today. Some have suggested James A. Bennett of New York as possibly the first American public accountant and his professional activities have been reported as beginning in 1818.5 It appears, however, that he was more of a teacher.

5 Information on the early history of American accountancy has been taken from the following source: Norman E. Webster, "Public Accountancy in the United States," The American Institute of Accountants Fiftieth Anniversary Celebration, 1937, Concord: The Rumford Press, pp. 101-119.
of bookkeeping than a public accountant. Also he published in 1814 *The American System of Practical Bookkeeping*, a work for which there was sufficient demand to warrant some 41 editions in the period of 1814 to 1862.

The first American public accounting firm seems to have had its origin in 1881. This firm, Candor & Carnes, was founded in Cincinnati, Ohio. It may be of interest to note that the largest public accounting firm in the United States today originated in London in 1860 and was founded by two chartered accountants; its American partnership is now larger than the founding partnership. Many other nationally known accounting firms in the United States today have had chartered accountants in their "family trees."

In 1886 there appears to have been about twenty-five professional public accountants in the United States, most of whom lived in New York. The number of accounting firms at this time probably did not exceed six.

**National Societies.** The idea of bringing the accountants together to form an organized body apparently came from an Englishman, one Edwin Guthrie, the English partner of

6 The firm referred to is Price, Waterhouse & Co., the Titan of accounting partnerships, with branches all over the world. Its personnel takes pleasure in the firm's motto: "The sun never sets on Price, Waterhouse."
the American firm of Barrow, Wade, Guthrie & Company (founded in 1883). As a result of his leadership the first society of public accountants came into existence on August 13, 1887, under the name of the American Association of Public Accountants.

Perhaps the most important accomplishment of the American Association of Public Accountants (hereinafter referred to as the Association) during the first decade of its existence was the enactment of a law licensing accounting practitioners and providing that the title "Certified Public Accountant" could not be used in connection with an accountant's name unless he had passed a qualifying examination. This not only established and reserved the title "Certified Public Accountant" but at the same time gave the profession its first legal recognition.

The Association did not remain the only national accounting society. In 1902 the Federation of Societies of Public Accountants in United States of America was organized. This body drew its members from the state societies existing at the time and had as its objective the promotion of

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7 This section on the history of national societies is taken from the following source: "A History of the American Institute of Accountants," foreword to The American Institute of Accountants Fiftieth Anniversary Celebration, 1937, Concord: The Rumford Press, pp. 3-29.
accountancy legislation in other states lacking laws upon the subject. The Federation did not exist as a separate accounting society for very long. It became apparent that there was no need for two national accounting organizations and so the Federation was in 1905 merged with the Association.

In 1916 the Association became the Institute of Accountants in the United States. Certain structural changes were made in the organization at that time including a provision putting membership in the Institute on an individual basis rather than on a participating state society basis. The initial membership in the newly constituted Institute was 1150.

The year 1917 saw a final refinement in the name of the national organization as it became the American Institute of Accountants and this name has remained unchanged to the present time.

The Institute was destined to have one more competitor for the national leadership of accountants. In 1921 the American Society of Certified Public Accountants was formed in Chicago. This organization had as one of its stated objectives the uniting of all Certified Public Accountants,
whether or not they happened to be eligible for membership in the Institute. It gradually became apparent again that there was no more need for two national accounting organizations than for two American Bar Associations for the lawyers. Finally in 1936 a merger was effected and the Institute, with a considerable jump in its membership, became once again (and as it is today) the only national organization for Certified Public Accountants. In 1948 it had over 12,000 Certified Public Accountants as members—however, the Institute still did not have quite one-half of the Certified Public Accountants as there were over 25,000 certified men in the United States in the same year.

State Societies. The state society, for which the British have no counterpart, is concomitant with the American Federal Type of governmental organization. Each state had to pass its own accountancy legislation\(^9\) and in each state accountants organized their own professional accounting society. As a consequence of the dependence upon state action, which is always variable, we find as we would expect to find differences between the state laws upon accountancy,

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\(^9\) Prior to the year 1900, only two states had this legislation; from 1900 through 1909 an additional nineteen states enacted accountancy laws, and from 1910 through 1919, twenty-five more passed similar legislation.
variations in the organization of the state societies and in the problems facing accountants from state to state. Even the ever-present question of what to do about non-certified accountants varies in complexity; in fact, it amounts to about forty-nine versions of the same question.

It is not possible or necessary to discuss the various state societies in detail. Each owes its continued existence largely to the local accountancy laws which frequently must be defended but are seldom improved. Probably the most powerful of all of the state societies is the New York State Society of Certified Public Accountants, the largest and oldest society in the United States. Organized in 1897 it has been a leader in the movement to strengthen the accounting profession through increasing educational requirements, etc. At present the various state societies have a total membership of over 15,000.

In summary of the discussion of the development of national and state societies and the accompanying accountancy laws it has been seen that the determination of the qualifications for obtaining the license to practice as a Certified Public Accountant has in the United States been left (of necessity) to the individual states and their respective legislative bodies. As previously noted the first legal recognition to accounting was given by New York State in
1896 when the legislature passed laws\textsuperscript{10} pertaining to the licensing of Certified Public Accountants. In time the rest

\textsuperscript{10} The enactment is quite brief and is given here because it served as a model for the laws in other states for the next thirty years. The full text follows:

Section 1. Any citizen of the United States, or person who has duly declared his intention of becoming such citizen, residing or having a place for the regular transaction of business in the state, being over the age of twenty-one years and of good moral character, and who shall have received from the regents of the university a certificate of his qualifications to practice as a public expert accountant as hereinafter provided, shall be styled and known as a certified public accountant; and no other person shall assume such title, or use the abbreviation C. P. A. or any other words, letters or figures to indicate that the person using the same is such certified public accountant.

Section 2. The regents of the university shall make rules for the examination of persons applying for certificates under this act, and may appoint a board of three examiners for the purpose, which board shall, after the year eighteen hundred and ninety seven, be composed of certified public accountants. The regents shall charge for examination and certificate such fee as may be necessary to meet the actual expenses of such examinations, and they shall report, annually, their receipts and expenses under the provisions of this act to the state comptroller, and pay the balance of receipts over expenditures to the state treasurer. The regents may revoke any such certificate for sufficient cause after written notice to the holder thereof and a hearing thereon.

Section 3. The regents may, in their discretion, waive the examination of any person possessing the qualifications mentioned in section one who shall have been, for more than one year before the passage of this act, practicing in this state on his own account, as a public accountant, and who shall apply in writing for such certificate within one year after the passage of this act.

Section 4. Any violation of this act shall be a misdemeanor.

Section 5. This act shall take effect immediately.

\textit{(Taken from Laws of 1896, Chap. 312).}

of the forty-eight states, and the District of Columbia adopted legislation of a similar type.

It should be emphasized that none of the states attempted in this initial legislation to regulate the practice of public accounting; the sole objective of the statutes was to restrict the use of the title "Certified Public Accountant." Thus in the United States the authority for conferring the title of Certified Public Accountant is vested in the various state governments: in Great Britain it is the function of the Chartered societies. The American counterpart of the British Chartered societies, the American Institute of Accountants, is powerless to make its desires effective except through the roundabout process of influencing the various societies who in turn may attempt to apply pressure to their respective state legislatures. Illustrative of what may be accomplished by this method is the matter of standardized examinations to test the qualifications of prospective Certified Public Accountants. The Institute-prepared examinations are now used in 45 of the 48 states and the District of Columbia. In other matters the Institute has not been so successful, instances of which will be alluded to later. In all problems facing accountants, therefore, whether they are national or local, it must always
be remembered that both the Institute and the state societies are private groups and only incidentally official. They can only hope to solve their problems through the medium of official cooperation.
CHAPTER III

PROFESSIONAL STANDARDS

The backbone of any profession is high standards of competence and conduct, for only then is there any assurance that there will be provided that level of professional performance which will insure that the public welfare is adequately served. Consequently, it is perfectly natural to see organizations of professional men attempting to raise their standards from time to time in an effort to afford the public with that kind of professional service which will enhance the prestige of the profession, preserve its economic advantages, and insure the continuation of the profession itself. It will be the purpose of this chapter to recount the varying degrees of success which have attended the efforts to maintain professional standards both in Great Britain and in the United States. In this connection it will be necessary to touch upon the training of would-be practitioners who have submitted themselves for professional training in accountancy.

Professional Standards in Great Britain. The extent of public acceptance of any profession depends in part upon the qualifications of the practitioners in that field. It is apparent that the formulation of professional standards may be by statute or by voluntary means, or by a combination in
which minimum standards prescribed by law are supplemented by self-imposed standards of a high order. In Great Britain the high standards of the professional conduct of Chartered Accountants have been attained by voluntary means. The Chartered societies at a very early time recognized that accountants would have to be men of absolute integrity and who possess a high degree of technical skill if they were to meet the ever-broadening responsibilities placed upon British accountants by British regulatory legislation, British law courts, and by the British public. And the constant improvement of professional standards brought even greater recognition to the Chartered Accountant as time passed and eventually brought the Chartered Accountants to the very pinnacle of professional attainment in Great Britain.

In an endeavor to maintain the professional standards the chartered societies have been quite selective in choosing prospective new members for the profession. Their training program is briefly summarized in the following paragraphs.

Mode of Entering the Accounting Profession in Great Britain. Training for chartered accountancy consists of practical experience in an accountant's office together with part-time study in preparation for the examinations of either the Institute of Chartered Accountants of England and
Wales, or the General Examining Board of the Chartered Accountants of Scotland (the three Scottish Societies of Chartered Accountants, viz. the Society of Accountants in Edinburgh, the Institute of Accountants and Actuaries in Glasgow and the Society of Accountants in Aberdeen, have similar qualifications for membership and all examinations to gain membership in any one of the three societies are held by the General Examining Board, located in Glasgow, Scotland).

The methods by which membership of these professional bodies can be secured are briefly as follows: ¹

A. Chartered Accountants (England and Wales).

(1) Membership of the Institute of Chartered Accountants of England and Wales can be obtained only by service as an articled clerk with a member of the Institute in practice in England and Wales and by passing the examinations of the Institute.

(2) Before a person can become an articled clerk he must be at least 15 years of age and must have passed the Institute's Preliminary examination or obtained exemption therefrom. Articles of clerkship must be registered with the Institute within one month of their execution. The period of service under articles is five years but may be reduced to three years for a graduate of a university of the United Kingdom.

(3) The Institute holds three examinations—Preliminary, Intermediate and Final. These examinations

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are usually held twice a year. Exemption from the Preliminary examination is granted to those who have passed School Certificate or a similar examination with credits in five subjects, including mathematics. The Intermediate examination is usually taken about half-way through the period of articles. The subjects are Bookkeeping and Accounts (including Limited Companies, Partnership and Executorship), Auditing and General Commercial Knowledge (including the Principles and Uses of Bookkeeping).

The Final examination is usually taken at the end of the period of articles. The subjects for the examination are Advanced Bookkeeping and Accounts (including Limited Companies, Partnership, Executorship, and the Law relating to Partnership and Executorship), Auditing, General Financial Knowledge (including Taxation, Costing and Foreign Exchanges), Company Law (including Liquidations), and the Law relating to Bankruptcy, Deeds of Arrangement, Receiverships and Trusteeships.

(4) Candidates who are successful in passing the Final examination are eligible for election as Associates of the Institute (A. C. A.). An Associate becomes eligible for election as Fellow (F. C. A.) after a period of professional practice.

E. Chartered Accountants (Scottish Societies).

(1) An apprenticeship of five years must be served under regular deed of indenture with a chartered accountant of Scotland who is in public practice in Great Britain. University graduates may have the period reduced to four years and a reduction may be allowed to a person who has served in the office of a chartered accountant of Scotland whilst over 17 years of age at the time of commencing the apprenticeship and must obtain the Preliminary qualification before commencing his apprenticeship or within six months thereafter.

(2) For the Preliminary qualification apprentices are required to have obtained a pass in certain subjects (including Higher Mathematics) at the Scottish Universities Preliminary examination for graduation or the Senior Leaving Certificate examination of the Scottish Education Department or to have qualifications which are accepted as equivalent by the Scottish Universities Entrance Board.
(3) The General Examining Board of the Chartered Accountants of Scotland hold Intermediate and Final examinations twice a year. Both examinations are in two divisions, and each division must be taken separately. The first division of the Intermediate examination can be taken at any time before or during apprenticeship, the subjects being Arithmetic and Algebra, and Compound Interest, Annuities Certain, and Elementary Statistics. The second division must be taken after passing the First, and after no less than one year's apprenticeship has been served. Papers are set in Bookkeeping and Accounting. The first division of the Final examination cannot be taken until the Intermediate examination has been passed and two years of apprenticeship have been served. It consists of papers on the Law of Scotland concerning Contract, Bills of Exchange, Bankruptcy, Joint Stock Companies, etc. The second division must be taken after passing the first and after expiry of the period of Apprenticeship. Papers are set in Book-keeping and Accounting, Income Tax, Surtax and National Defense Contribution, Auditing, Trust Accounting and Investigations, Insolvencies, etc.

(4) During apprenticeship candidates must attend certain prescribed classes at one of the Scottish universities or approved courses in London for instruction in Scottish Law, Accounting and Economics.

(5) On completion of the final examination the successful candidate will be eligible for membership of the Society or Institute of which his master is a member.

It is plain that the professional societies of chartered accountants can be highly selective in the matter of replacements and the candidates for chartered accountancy are virtually "hand-picked" men.

There is a further matter which has the effect of eliminating a large number of candidates—this is the matter of the cost of training and the long period of apprenticeship
at little or no salary. It is a practice of chartered accountants to charge a premium ranging from 100 to 500 guineas for accepting an articled pupil or apprentice. In the case of Scottish Societies, free indenture can be obtained in some instances. And where a premium is paid, it is often returned in the form of salary over the period of articles or indenture. Fees are charged for the examinations mentioned above.

The practical effect of the long training period and the cost thereof has been to restrict the source of candidates almost exclusively to the middle or upper-middle class families of Great Britain.

With reference to the subject matter of the training period the reasons for the heavy emphasis on law in the preparation for chartered accountancy will be evident when we consider in Chapter IV some of the phases of British accounting practice.

**Professional Standards in the United States.** It must be admitted at the offset that the standards of conduct of the accounting profession in our country are at once high in certain places and dangerously low in others. This situation obtains as the direct result of our Federal type of government which has meant that the lifting of
professional standards, where it is attempted, must be accomplished through the medium of enacting accountancy legislation in the particular states, the District of Columbia, or the various territories. Thus not one but more than 50 legislative bodies are involved, and not one set of previously enacted laws but more than 50 sets have to be considered for revision and implementation. This is the situation that the American Institute of Accountants and the various state societies have had to meet in their attempts to regulate and improve the standards of public accounting in general. An added difficulty is the fact that less than half of the Certified Public Accountants are members of the Institute and many are not sympathetic with all of the aims of the Institute (a matter which will be discussed later).

Thus the raising of professional standards, so successfully accomplished by the chartered societies of Great Britain, is in the United States a matter left entirely to the discretion of the state legislatures. The Institute in its attempts to improve the low standards found in many of the states can influence these state governmental bodies only to the extent of its persuasive powers. The path which proved so successful in Great Britain, that of complete control of professional standards within
the hands of the organized accounting societies, is closed and virtually impossible of attainment in the United States with its forty-eight states, the District of Columbia, and the territories.

The consideration of professional standards, then, must be conducted at the state level and in the discussion to follow a distinction will be made between what has been referred to as "permissive" state accountancy legislation and what has been called "regulatory" state accountancy legislation. The former term is applied to the first laws passed in the various states (New York was first in 1896). These laws made no attempt to restrict or regulate the practice of public accounting except in the use of titles. The latter term will be applied to subsequent laws on accounting enacted with an object of setting minimum standards of competence for those engaged in the public accounting profession. Some eighteen states have in a period of about twenty-five years passed regulatory legislation. Maryland was the first to promulgate this type of

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2 A distinction made by Walter G. Draewell in his paper "Accountancy Legislation and the Public Accountant" which was presented at the Sixtieth Annual Meeting of The American Institute of Accountants held November 3 - 6, 1947, at Miami Beach, Florida.
regulation and did so in 1924. New York has been a leader in the attempt to raise professional standards and succeeded in passing its regulatory legislation on accountancy in 1929. Since the New York law has been looked upon as somewhat of a model its most significant points will be presented below as being indicative of the states which have regulatory legislation.

The requirements imposed by New York State follow:

(1) an applicant for the certificate of certified public accountant must submit evidence that he is over 21 years of age and of good moral character; (2) he must have completed at least four years of high-school and since January 1, 1933, must also have completed a course in a college of accountancy registered by the department of education; (3) he must submit evidence of five years' experience in accountancy, at least two of which must have been in the office of a certified public accountant and of no less grade than that of junior accountant; such two years' accounting experience must have been in the office of a

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For a comprehensive review of New York's laws on accountancy and their administration, and for the source of my material on this subject, see: Walter N. Dean, "The Role of the State Board of Examiners in the Development of Accountancy in New York," The New York State Society of Certified Public Accountants' Fiftieth Anniversary, 1897-1947, pp. 59-66.
certified public accountant in this State or in the office of one residing in another State holding a certificate from such state granted on no lower requirement than that of this State, and he must submit evidence of three years' experience attained prior to his admission to the C. P. A. examination; (4) he must take professional examinations conducted by the State department of education in the following subjects: theory of accounts, auditing, practical accounting and commercial law. The passing grade in each subject is 75%.

The regulations cited above were passed in 1929 but the regulation requiring graduation from a college of accountancy did not become effective until January 1, 1933. It should be pointed out that by "college of accountancy" is meant a four-year collegiate course that may be taken in schools located anywhere in the country which meet minimum standards set by the New York State Education Department. The schools are required to register with the Department so that the Department will be able to determine if their course of study has met certain minimum requirements as to content. Usually a minimum of sixty semester hours of liberal arts and sixty semester hours of technical training in business and accountancy are necessary for the registration of the school.

While reviewing the New York requirements one should
not forget that in the thirty states which have passed only "permissive" legislation in most cases the sole education requirement for admission to practice as a certified public accountant is the completion of a four-year course of study in high schools. This dearth of educational requirements does not compare very favorably with minimum requirements set for lawyers and doctors and, of course, is a matter which has received much attention by the American Institute of Accountants in recent years. In order to provide more protection for the public by raising the standards of technical competence and professional conduct, the Institute has developed a model regulatory bill which it hopes will be introduced to the various state legislatures by the state societies of certified men and eventually passed in all of the states not now having such legislation.

The major provisions of the bill are as follows:

1. The registration of those actually engaged in the practice of public accounting at the date of passage of the act. Thereafter, only those who obtain C. P. A. certificates will be eligible to register under the act;

2. prohibits anyone not registered under the act from certifying financial statements for the benefit of others than the clients themselves;

3. prohibits anyone not registered under the act from calling himself a public
accountant, a licensed public accountant, a registered public accountant, or a certified public accountant; (4) establishes rules of professional conduct for those registered under the act.

This bill, in the states if any, in which it is enacted into law, would in time confine the practice of public accounting to certified public accountants only and today's non-certified accountants would become a dying class. Thus over the next few decades the present system of having two classes of public accountants—one group certified; the other group (and a numerically larger group) known variously as registered accountants, public accountants, licensed public accountants, or whatever title the state uses to designate the non-certified group, would be gradually terminated through the unsolicited but persistent aid of the Grim Reaper.

Thus in the long run the Institute would achieve its avowed aim of establishing high standards throughout the accounting professions and eliminate the possibility that is extant at present, that of a person who knows little or nothing of accounting and income tax matters hanging up his shingle as a "Public Accountant," a situation which does not exist in any other profession today.

It might seem that the obvious merits of such a bill
providing for the protection of the public interest through raising the standards of public accounting to at least that of the older professions in this country would meet with approval in all accounting circles, even including the non-certified groups for those in practice now would have their means of livelihood protected since under the provisions of the bill they are allowed to continue their present practice of public accounting. General approval has not been forthcoming, however.

Before considering the next subject, which is a somewhat distasteful one to most Certified Public Accountants, it is apropos to quote an observation by Rudolph M. Binder who in writing about the various professions had this to say:

The obligation on the part of the professions to gain or retain social esteem by conferring new benefits upon every generation, forces them to admit only specially prepared and morally worthy individuals to their ranks. In this respect there has been an almost continuous battle between the men endowed with the true professional spirit, and those who sought admission merely for the sake of the emoluments and social prestige.4

Binder did not bother to illustrate the above observations but had he needed a case in point he would

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have found the accounting profession a veritable happy hunting ground for documentation of his remarks. To understand why this is so it is only necessary to delve into the history of State regulatory legislation on accounting matters. First, however, that we can understand and interpret this history, we must know what is meant by the term "waiver clause."

The "waiver clause" as it pertains to accounting affairs means that qualifications which ordinarily have to be met if one wishes to obtain a C. P. A. certificate are waived insofar as the non-certified individuals engaged in public accounting practice are concerned and they receive their certificate by merely applying for it. The adoption of the waiver clause by the legislature has usually meant the lowering, if not outright pollution, of the professional standards of accounting. The threat of waiver has been used to make the certified groups "go slow" with their regulatory bills, and where regulatory legislation has been pressed upon the legislature the "waiver clause" has many times become a part of the bill despite the best efforts of the certified groups to the contrary. Thus a state society is faced with this situation when it considers presenting regulatory legislation to the state legislative body—their bill may be passed but because of the pressure
of the non-certified public accountants the waiver clause may be attached thus making a mockery of an act aimed at improving professional standards. It is fear of the waiver clause that is at the root of the opposition of many certified men towards regulatory bills and causes them to prefer a "do-nothing" legislative policy on the grounds that attempts to improve professional standards usually end disastrously. For this reason it is not at all uncommon to find both public accountants and certified public accountants lined up in opposition to a regulatory measure.

This fear of the waiver clause which permeates many state societies and causes them to follow a policy of inaction cannot be considered wholly irrational; it is usually based upon some never-to-be-forgotten experiences at their own state capitol in years past. Such state societies of certified public accountants have reason to be apprehensive about what may be conjured up as the result of presenting a well-intentioned regulatory bill to the legislature. As a result of counter-lobbying by public accountants, the accountancy bill runs the danger of being labelled "closed shop" legislation calculated to make the certified men the "chosen few" of the profession and in the ensuing hysteria engendered by this discovery there is a very real danger that waiver clause will be inserted into
the bill and the door will swing open to allow the
C. P. A. certificate to everyone in the public accounting
profession including the "guaranteed tax-refund" accountants
who sign the Federal income tax returns they prepare with
disappearing ink.

Another reason for the reluctance of some Certified
Public Accountants to bring a regulatory bill to their
own state legislature stems from the fact that many of
today's Certified Public Accountants obtained their certi-
fications by waiver. Thus they would be putting themselves
in the position of publicly opposing the granting to other,
perhaps as well qualified, what they themselves received
carta blanche some years before. They would also be in the
position at the same time of legislating out of existence
the non-certified men and the combination of these two
factors is usually too much for the Certified Public
Accountant who received his certificate by legislative
decree.

5 For example in the State of Montana in the period
from 1909 through 1948 some 146 certificates have been issued.
Of these, 63 were issued to those who successfully passed
the C. P. A. examination; 10 were issued by reciprocity
agreement to men who were C. P. A.'s of other states; and
the remaining 73 were granted as a result of waiver clauses.
It is no secret that at the present time the majority of
the members of the Montana Society of Certified Public
Accountants do not want to have any part of the Institute's
model regulatory bill.
Still another factor that must be reckoned with, and particularly so in recent years, is the fact that the non-certified public accountants usually outnumber those certified by about four to one. Years ago the non-certified men were not well organized but in the last decade legislatures have been bombarded with a flood of bills from the non-certified groups. A national organization of non-certified men called the National Society of Public Accountants has spearheaded the legislative activity in many states and has developed its own model regulatory bill. Certified Public Accountants will gain little comfort from the objectives of the society as implied in the following comments made by the secretary of the National Society of Public Accountants:

...A person is either a public accountant or is not a public accountant. No distinction should be made between a certified public accountant and a non-certified public accountant. If this can only be accomplished through evolution, then we are ready. Examinations should be prepared within the states by the duly constituted regulatory board... If the applicant successfully passed the required examination then he should be licensed as a public accountant and known henceforth as a public accountant. This would not, in any manner whatsoever, preclude or prevent any public accountant who desires to take the examination of the American Institute to be issued their certificates of proficiency, as any school, which in substance would be tantamount to an extra curriculum by the individual...
... It might be well to reiterate now that the non-certified group, as a whole, is not seeking any gratuitous certificates from any group with or without examinations. 6

The model bill sponsored by this group provides that no one (including C. P. A.'s) can practice public accounting unless he holds a certificate as a "public accountant" issued by a board to be created by the model bill. The prospective "public accountant" under this bill is required to pass an examination covering the same material as now encompassed by the present C. P. A. examinations prepared by the Institute. This bill, if enacted, would by-pass the C. P. A. laws and would make certified public accountants a dying class. In many states non-certified groups have sponsored bills developed from this model bill. Some have been more extreme than the model bill. In 1947 in the State of New Mexico, the regulatory bill sponsored by the public accountants when first introduced provided that the C. P. A. certificate would no longer be issued. 7 This bill, after considerable modification (including omission of the aforementioned provision), was passed. It improved materially


7 Ibid., p. 132.
the status of the public accountants by giving them representation on the Board of Public Accountancy created by passage of the accountancy bill.

The assault upon the C. P. A. certificate has been widespread and continuous. New York C. P. A.'s, long-time leaders in the battle for improvement of professional standards, found themselves on the brink of disaster in 1947 when the Oliver bill (sponsored by State Senator Oliver, a non-certified public accountant) which provided for the granting of the C. P. A. certificate without examination to applicants, 40 and over, who could present evidence of 15 years of qualifying accounting experience, was passed. Fortunately the matter of the evaluation of qualifications was left to the New York State Education Department and as a result in the interim between the time of passage and subsequent repeal of the Oliver bill in 1948, of some 1,000 applicants under the act only one was granted a waiver certificate.

In Florida in 1947 a waiver law was passed and practically the sole qualification for receiving a certificate...

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without examination was ten years public accounting ex-
perience prior to passage of the act. 9

California in 1945 passed a regulatory bill which
allowed even municipal and state employees to register as
public accountants. 10 As a result over 21,000 applications
were filed and some 13,500 permits issued of which only
about 2,200 are held by certified public accountants. This
situation in which the certified men are so badly out-
numbered is fraught with dangers. This horde of registered
public accountants may at any time press the legislature
for waiver C. P. A. certificates or, this failing, a
dilution of registration requirements to allow anyone who
can file his own federal tax form (wage-earners’ return)
to enter public accounting practice.

In 1949 the assault continued. Some 141 bills on
accountancy matters were introduced in 44 different states;
California had the dubious distinction of having the most
for a single state, 15 in all. Most of them would have
by-passed, weakened, undermined or sabotaged present C. P. A.
laws had they passed. Certified Public Accountants, through


10 Technical & Professional Notes, The Journal of
their state societies, and with the moral support of the Institute were able to prevent most of these from becoming laws and where laws were passed they were able to modify their provisions so that currently it can be said that the C. P. A.'s are holding their own, but their actions have been mainly negative in that they have been against, not for, the laws so that their position is not at all secure since the non-certified groups have held the initiative. Now there have been few exceptions to this; one state, Washington, was able to pass a regulatory bill modeled after the Institute's bill.

It is hoped that the actions of the C. P. A.'s will not continue to be of the rear-guard type when legislatures again meet because it is almost certain that the non-certified groups, encouraged and aided by the National Society of Public Accountants, will again be pressing for enactments which will be to the interests of the public accountants who have been unable to pass or unwilling to take the C. P. A. examination. It is abundantly clear that the National Society of Public Accountants intends to perpetuate and enhance the standing of the non-certified group and it is axiomatic that their answer to the question of whether there should be a two-class or one-class set-up in the field of accounting is, one-class, all public accountants.
If the claim to professional status rests upon the maintenance of high professional standards, then it follows that attempts to dilute or eliminate educational, or experience, or examination requirements must be resisted not only by Certified Public Accountants but other groups as well and, in fact, the success of the Certified Public Accountants' fight to maintain standards will hinge very largely upon their success in convincing other groups such as business and labor that they will suffer, too, if accounting standards are impaired. The American Institute of Accountants has,

11 Some groups are already aware of the necessity of maintaining high professional accounting standards. For example the following quotation is taken from a letter from the President of Robert Morris Associates, national organization of financial credit men, to the Secretary of the Institute:

"Members of this organization, in safe-guarding the flow of credit, must rely upon the ability and integrity of accountants who certify financial statements. Our association views with concern any legislative change that would lower standards in the accounting profession, either by lowering educational, experience, or written examination requirements for the certificate, or by giving legal recognition as a continuing class to those who cannot meet the high standards for the CPA certificate . . . . We believe it highly important, not only to the bank and accounting professions, but to the public interest as well, that the accounting standards that have been developed during the past 50 years be maintained."

somewhat belatedly, recognized the value of public education and has in recent years encouraged and aided state societies to undertake programs which will make the public aware of the differences between certified and non-certified public accountants. It is hoped that this somewhat overdue program will help the certified public accountants through the next few years when legislative activity on accounting matters will probably be at its zenith.

Mode of Entering the Accounting Profession in the United States. Training for most certified public accountants today is provided by business schools on university campuses. However, some of the younger certified men still acquire their knowledge of accountancy by other means—from business colleges, correspondence schools, et cetera. Among the older practitioners there are many who are self-taught and the number of business school graduates is not so significant.

In most states to sit for the C. P. A. examination one has only to be 21 years of age and a high school graduate. In most states, however, should a person pass

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12 Perhaps the delay was due in part to a feeling by many accountants that advertising and in particular advertising that "tooted one's own horn" was unprofessional. On the other hand while people associate with doctors and perhaps know at least one lawyer, few people see a C. P. A. at work and yet more people may be affected by what the C. P. A.'s do than by either of the other mentioned professions.
the examination and if he is without public accounting experience (usually two or three years is required) his certificate would be withheld until he produced evidence of experience satisfactory to the state board of accountancy.

The examination, which is now provided by the Institute in 45 of the 48 states and in the District of Columbia, covers four fields of endeavor: auditing, accounting theory, accounting practice, and commercial law. The examination is similar in content to that given to prospective chartered accountants in Great Britain except that the emphasis upon law is materially less in the American Examinations.

It is possible in most states today, despite the trend towards increasing the education requirements, for a high school graduate to sit for the examination if he were twenty-one years of age. It is admitted that if his educational background included only high school training in accounting plus a few years of keeping books for the corner gas station, his chances of successfully passing any part of the examination would be virtually nil. Therefore, irrespective of the minimum requirements which in most states are certainly "unprofessional," individuals who aspire to pass the C. P. A. examinations must augment their knowledge of accounting either by some part-time efforts such as night school or lessons from reputable correspondence schools,
or by some full-time effort such as enrolling in a college or university business school, or, in certain areas, business colleges with a full complement of accounting courses, albeit such a business college is a *rara avis* in most areas. Most successful candidates in the C. P. A. examinations today are either graduates from some school of business or college-trained in that they received a part of their training there even though they did not remain to graduate.

**Role of Schools of Accountancy.** The development of formal education in accounting and business at the university level has largely taken place since the turn of the 19th Century. There are a few exceptions to this statement, for example, the Wharton School of Commerce and Finance, the first to provide education for accountancy, was founded in 1881. In 1898, the University of Chicago organized its business school. About a decade later a survey made by the Institute showed at least a dozen schools which provided for training in accountancy. Today there are at least two hundred universities and colleges providing a full curriculum of courses in accounting subjects and which, if successfully completed, should give the prospective C. P. A. a good chance of passing the examinations without further formal training.

The contribution of schools of business to the accounting profession has probably not been recognized by most of the
public accounting practitioners but nevertheless the greatest single factor in strengthening the profession in the last three decades has been the schools of business. The American Institute of Accountants has recognized this fact in recent years and has encouraged local state societies to cooperate with schools of business administration in their respective states.\textsuperscript{13} Collegiate schools of business have provided the profession with a steady supply of well-trained young men. At first the partners and older staff members of accounting firms were somewhat skeptical of these college trained accountants. They felt that these junior accountants from the campuses would be too "theoretical" or disdainful of the routine work that is so much a part of the junior accountant's work. Today most accounting firms, and particularly the large ones, insist upon men with college degrees. We find, therefore, a situation developing in which the training of the typical public accountant far exceeds the statutory requirements and we can expect the certified public accountant of tomorrow will be in all but a few cases a college trained man, despite the low educational requirements in most states.

\textsuperscript{13} This is evidenced by a paper given at the sixty-first annual meeting of the American Institute of Accountants, September 19-23, 1948, by Henry J. Lee, entitled "What Can a State Society Do To Cooperate With Schools of Business Administration?"
Perhaps the only salient weakness of the college trained accountant is his lack of practical experience. In this respect the young chartered accountant acquires "on-the-job" experience as a part of the regular training course provided by the societies in Great Britain. Currently steps are being taken in American schools of business to remedy this defect. Internship programs in which the accountant trainee spends one or more quarters or semesters out of school and on the job as a junior accountant have been or are being inaugurated by various schools of business. The internship program is the American approach to the British training method of theory and practical experience acquired at the same time.

In time American schools of business, if they maintain their present high standards, will by non-statutory means attain the education level of the other professions for their accounting trainees, whether or not the Institute and the various state societies are able to raise the standards up to those of the legal and medical professions by legislation. However, if the Institute and its cohorts are unable to withstand the attempts to reduce present standards by the issuing of "waiver" certificates and other means, then fine efforts of the schools of business will have lost much of their effectiveness insofar as the betterment of the profession as a whole is concerned.
In summary it should be noted that the extent and quality of the training available for young accountants in the United States is comparable to that in Great Britain. A college-trained accountant who holds his C. P. A. certificate as a result of passing an examination provided by the American Institute of Accountants would not be inferior to a Chartered Accountant. But the title of Certified Public Accountant does not always signify a college-trained man nor one who has passed any examination at all on accounting subjects. The fact that it is necessary to examine each C. P. A.'s pedigree is indicative of the inherent weakness in leaving the matter of professional standards up to the several states. Therefore, the obvious fact that the country-wide prestige for the C. P. A. certificate depends upon the existence and maintenance of high standards in every state will continue to be a fact but never an actuality until the Constitution of the United States is either changed or re-interpreted to provide for Federal licensing of the professions. Until that time accounting's professional standards and even the title of certified public accountant itself will continue under not one but forty-nine Damocles' swords.
In considering the work of professional accountants in the United States and in Great Britain, there are factors which indicate that the scope of accounting practice in the two countries would be about the same. Both countries have similar political institutions, a common heritage of language and culture, and an economy in both that is, or has been, predominately capitalistic. The two countries have highly developed industries coupled with complex financial institutions. Yet, despite these similarities, there are significant differences in the scope of accounting practice between the two countries as will shortly be disclosed.

Public Accounting in Great Britain.¹ Public accounting practice in Great Britain is founded much more upon a legal basis than is accounting in the United States. The sources of this legal bulwark are the British Companies Acts, the British Law Courts, the Local Government Boards of the British Central Government, and the British Income Tax Laws.

The first of these factors, the British Companies Acts, can be compared in some respects with the Securities

¹ Much of this section is based upon correspondence and discussions with David Hill, Chartered Accountant, Seattle, Washington.
and Exchange Commission's Regulations, but they are actually much broader and more comprehensive in their application to British corporate life than the impingements of comparable American regulations.

The extensiveness of the British Companies Acts (to be discussed in some detail in Chapter V) arises from the fact that historically the privilege of limited liability was granted in Great Britain as a boon, not as a right as in the United States. Consequently the joint-stock companies desiring limited liability had to accept certain responsibilities in return for its acquisition. One of the requirements imposed upon each company is to file annually with the Registrar of Joint-Stock Companies a copy of its audit and a certified balance sheet.

The auditors are appointed each year by the stockholders at the annual meeting and, because of the fact that the auditors are not appointed by or responsible to the companies' management, the auditor's certificate is always addressed to the stockholders. Appointment of Chartered Accountants is not required by the Companies Acts—however, as a matter of practice, Chartered Accountants invariably have been chosen because of their high standing and integrity.

In the case of newly organized, limited-liability companies, a financial examination called the Statutory
Interim Audit must be made within a few months of the formation of the company in order to assure the stockholders that the representations made to them by the promoters have been carried out. The auditors for this Statutory Interim Audit are appointed by the promoters and it is required that the names of the chosen auditors be set forth on the facing sheet of the prospectus. In order to strengthen their prospectus and to establish confidence in the investing public, promoters of necessity have appointed Chartered Accountants to make the Statutory Interim Audit.

British law courts have also figured in the rise of the Chartered Accountants to their present position. For example, during the period of 1862 to 1883 a considerable portion of the work of public accountants was concerned with winding up the affairs of bankrupts. This duty fell upon the accountants because of the Companies Act of 1862 which prescribed that troubled business be placed in the hands of disinterested persons. In fact, the accountants were so active in the capacity of liquidators of companies that it has been remarked that "to have your office entered by an accountant was to be avoided." Later, when the Bankruptcy

Act of 1883 established the office of Official Receiver, it reduced the amount of this type of work handled by accountants (usually Chartered Accountants). However, because of precedent and excellent service, British accountants continued to handle the following types of legal affairs:

1) liquidations of corporations
2) winding up of bankrupt corporations
3) handling estates of incapable persons
4) handling of estates of minors and estates held in trust
5) arbitration proceedings

Thus in Great Britain Chartered Accountants and not lawyers were usually appointed the liquidators, the trustees, and the referees. When lawyers were appointed by the courts in the larger cases they acted in an advisory capacity only and the burden of the particular case lay with the Chartered Accountant, not the barrister.

In the British Isles there is one central government and consequently local units, such as the county, the burgh, and the parish are responsible directly to the national government. These various units of local government are required to provide the national government with an audit of their affairs each year. Auditors for this work are
selected by local politicians from a panel or roster prepared by a cabinet officer of the central government. Prior to the rise of the Labor Party only the names of Chartered Accountants appeared on the rosters. Thus in the municipal accounting field the Chartered Accountants approached the status of quasi-governmental officials as they reported directly to a cabinet officer to whom their audit report was addressed.

The position of Chartered Accountants with respect to British Income Tax Laws is unique. A certified copy of the balance sheet of all companies is required to be attached to their respective income tax returns and where the balance sheet and accompanying tax returns are based upon financial examinations made by Chartered Accountants, the Surveyor of Taxes generally accepts the return without any scrutiny of

3 The British Local Government Act, 1933, provided for an audit either by the district auditors of the Ministry of Health or a professional audit by members of one or more of the following accounting societies:
   (a) Institute of Chartered Accountants in England and Wales
   (b) Society of Incorporated Accountants and Auditors
   (c) Society of Accountants in Edinburgh
   (d) Institute of Accountants and Actuaries in Glasgow
   (e) Society of Accountants in Aberdeen
   (f) The Association of Certified and Corporate Accountants

Prior to the passage of this Act only Chartered Accountants and Incorporated Accountants could audit the accounts of a municipal corporation.
the client's books. This is significant evidence of the high confidence placed upon the representations of the Chartered Accountants. It does not mean that questions will not be asked at times regarding depreciation rates or other matters but it does indicate unparalleled confidence in the integrity of the Chartered Accountants to display the facts honestly for all concerned to see, even including the tax collector!

From the remarks above it may be observed that the Chartered Accountant, protected by English law, has labored in a comparatively unrestricted environment. He has usually been in the position of reporting to someone who has no reason to want to control or limit his actions.

Public Accounting in the United States. American accountants have many times been referred to as the "handmaidens to business" or perhaps as "skilled professional assistants to management"—a description which pleases most public accountants, even those who are certified. And it cannot be doubted that the vein of truth in such appellations is a broad one indeed. It has resulted from the fact that American accountants, including those certified, have had to sell their services and gain the good will of businessmen in much the same manner as an advertising agency.
In the early history of the United States, states vied with each other in the business of encouraging enterprises to incorporate within their own state boundaries. In this competitive struggle the stockholder was forgotten and it is a safe assumption that had any one of the states required an audited balance sheet to be submitted to the stockholders annually, this alone would probably have caused prospective incorporators to seek charters from other states.

American accountants have had to educate businessmen in a great many cases to use the services of accountants, and it is only in recent decades that the accountant has been looked upon as indispensable by many businessmen. American accountants are usually hired by and responsible directly to management, rarely ever to the stockholders. Few people would care to argue that the officers of a corporation can be considered as being "disinterested parties"

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4 Berle and Means state that early in the nineteenth century there were a number of protections afforded stockholders. The objectives of the enterprise were required to be clearly defined so that corporate management was limited to stated purposes; contributions of capital were closely supervised and minimum capital contributions had to be made; a rigid capital structure was imposed upon each corporation; dividends were to be paid only out of surplus profits. Berle and Means then trace the gradual dilution of these protective means as corporations increased in size and power. Berle and Means, The Modern Corporation and Private Property. New York: The MacMillan Company, 1937. pp. 127-138.
in the affairs of their own corporation.

Small companies and unincorporated businesses in the United States are frequently served by non-certified accountants, but an examination of corporation audit reports of the medium and large-sized corporations shows that the audits of these companies are invariably done by Certified Public Accountants. In the relationships between certified public accountants and the larger corporations a number of pressures have appeared.

One of these pressures which has tended to weaken the accountant's position is the factor of competition between accountants themselves. In the past this competition has included the use of some rather sharp practices in order to gain business in the form of audits and tax work. Today the situation is improved as a result of efforts by the American Institute of Accountants and by the various state societies. The Institute in cooperation with state societies has been able to eliminate many un-professional practices such as advertising, contingent fees, engaging in other occupations thought to be incompatible with public accounting.

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5 The American Institute of Accountants has adopted rules of professional conduct for its membership and state societies also have codes of ethics patterned after that of the Institute. For a complete listing of the rules of professional conduct of the American Institute of Accountants, see Appendix E.
and many other practices considered detrimental to the prestige of the profession. However, there is still some sub-rosa underbidding and considerable verbal undermining with respect to maintaining old audits and securing new ones.

Another factor is what can be referred to as "shopping around" by company managements among accounting firms with a view either to finding a firm which will "go-along" with the management on some current duplicity or just to weaken the position of the accountants if any question should arise which would involve a difference of opinion. The firing of an auditing firm is not given a second thought in American practice whereas in Great Britain such an occurrence is a matter of gravest concern.

Still another factor affecting the auditor's position is the question of who actually requested the appointment of the auditor. Usually auditors are hired by the company and the audit report is addressed either to the officers or the directors. In case the audit has been demanded by bankers, large stockholders, or other parties outside the management circle, one usually finds that the independence of the auditor approaches the traditional position of the Chartered Accountant. In the case of the large corporation where the stockholders are a legion, where outside financial institutions have little or no interest to protect, and where
the corporation's own management staff includes expert accountants and auditors, the so-called independence of the Certified Public Accountant virtually disappears. Under such circumstances auditing becomes a matter of "rubber-stamping" the balance sheet and related statements.

For these and other reasons it can be reasonably concluded that the independence of the Certified Public Accountant in his audit engagements is highly uncertain. In some situations independence exists in fact, in other situations it is in fact a myth. The successful Certified Public Accountant, lacking the umbrella provided for the Chartered Accountants by the British Companies Acts, is a master of compromise, and usually manages to salvage something for the sake of accounting principles and at the same time, to save the audit engagement for the succeeding year. Fortunately for the Certified Public Accountant, the question of what is saved for the stockholders in the corporate giants of the day rarely arises.\(^6\)

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\(^6\) Stockholders would not even derive much comfort from reading the publications of the accounting profession itself. For example, on the subject of mis-statement of profits, they would have found a study denoting abuses in the use of reserves by major companies in the pre-war years. And when the stockholder recalled the fact that profits during those years were low he would doubtless wonder (with alarm) what devices the major corporations developed during the "fat" war and post-war years to hide their profits. For articles on the abuses of reserves see: Herbert E. Miller, "Surplus Reserves," The Accounting Review, (April, 1947), p. 147; Maurice H. Stans, "Weakness in Financial Reporting Caused by Improper Use of Reserves," The Journal of Accountancy, Vol. 85, No. 3 (March, 1949), pp. 195-95.
So far the discussion of public accounting practice in the United States has dwelt upon the relationships of Certified Public Accountants and their corporation employers. If we consider the matter of court work, the Certified Public Accountant (or any other accountant) faces barren prospects, unless he is also a lawyer. The law profession has achieved for itself a "closed shop" in the matter of access to courts, and currently some elements of the legal profession are attempting to broaden the base of the profession and make tax work the exclusive province of lawyers.\(^7\) Considering the penchant of lawyers for legislative action in settling their jurisdictional disputes (logical when one considers that about ninety per cent of the legislators have a legal background) accountants could lose part or all of their tax work. More will be said upon this matter later under the chapter entitled "The Future of the Profession Here and Abroad."

\(^7\) Representative of attempts of this type is the Judicial Codification Bill, HR 3214, which, in its original form, would have made the Tax Court a court of record. Such an enactment would have barred certified public accountants from appearing before it. When an amendment was proposed which would have permitted not-lawyers to continue practice, the American Bar Association opposed it. Fortunately for certified public accountants when the bill was finally passed the 80th Congress omitted the controversial matter of the status of the Tax Court. For the time being certified public accountants can continue to practice before the Tax Court as they have for the past 24 years.
Let us turn to the field of municipal accounting. Most states are lax in requiring audits of state and local affairs, but where such audits are required by state law, and it must be added, where such laws are enforced, the Certified Public Accountant rarely handles this work. It would almost appear that the Certified Public Accountants conceded the loss of this field many years ago, and as the hosts of state and municipal accountants appeared upon the scene, the Certified Public Accountants withdrew with little or no struggle, and apparently with little or no regret. Reasons can be advanced for this occurrence: audit fees were usually low, considerable paper work including preparation of bids in connection with the jobs, the audit work itself was monotonous, and at the same time, there was the lure of the expanding, lucrative field of private accounting work. For these reasons and others, therefore, the expanding forces of state-hired examiners usually failed to find strong, or united opposition as they engrossed this field of accounting.

In defense of municipal accounting it should be pointed out that whereas it was usually not highly remunerative, yet it provided a steady year-in, year-out type of work that could be done to a considerable extent in slack or off-season periods. Chartered Accountants have retained this work
in Great Britain, perhaps because of the opportunity for service to the community in which they live. It is the writer's opinion that had American accountants maintained an interest in this field, either because of civic-mindedness or other reasons, they might have provided the leadership which would have led to the subjection of all state and local affairs to audit.

Finally there is the matter of tax work and the Certified Public Accountant. Actually tax work is a part of any audit and would ordinarily not need special comment. However, we noted above\(^3\) the unique position of the Chartered Accountant in this regard and it cannot be said that the Certified Public Accountants hold a comparable position. The typical Certified Public Accountant prepares the tax return from the standpoint of his employer which frequently means that all doubts are almost usually automatically resolved in favor of the taxpayer. The Bureau of Internal Revenue recognizes the position of the accountants, both certified and otherwise, and, therefore, performs its own field audits insofar as its own manpower situation will allow. Experience shows that even mediocre Revenue Agents are able to assess additional tax dollars simply because of the

\(^3\) Page 51.
accountant's orientation to management. This remark should not be construed as branding accountants en masse as tax chisellers, or always flirting around the edge of fraud in an effort to avoid taxes on their clients. Anyone familiar with the preparation of a tax return for a corporation or an individual with substantial and varied interests knows that invariably transactions will arise which can be handled legitimately in more than one way. Many times one treatment of an item will result in a smaller tax than another—if so, the accountant is quite humanly prone to select the combination which will yield the lesser tax. It is from such transactions that the Revenue Agent may be able to take exceptions which yield additional tax dollars.

Sometimes individual firms of Certified Public Accountants will establish over a period of years a reputation for consistent and fair handling of tax items so that they are in good repute with the Revenue Agents in their district. Consequently, at times, returns prepared by such firms might be passed or given a cursory examination, and the agents would devote the bulk of their efforts with the returns prepared by Certified Public Accountants with reputations for sharp practice.

In the final analysis the accountant in preparing the tax return is under the same pressures noted in connection
with the audit itself. Perhaps the only generalization that can be drawn is that the Certified Public Accountant has, to date, never been able to convince the Bureau of Internal Revenue that he is a "free agent" which the accountant likes to infer when he advertises himself as an independent public accountant.

In conclusion it may be remarked that definite boundaries have been prescribed for the Certified Public Accountant either by other professional groups seeking to limit the scope of the accountants' activities or by the accountants themselves sometimes by default. Some opportunities, such as one afforded by municipal accounting, have been missed and may never come again. Other opportunities still remain, however, and can provide the profession with chances to increase the breadth of its services to the public provided the accountants will not content themselves with their present role as a professional assistant to business management.

New opportunities will arise as society evolves and new problems present themselves. For example, the Certified Public Accountant is a logical choice for an impartial arbitrator in current labor-management negotiations and
state-sponsored arbitration proceedings of the future.  

At the present time, however, most Certified Public Accountants would have some difficulty convincing

9 Many C. P. A.'s are concerned over this matter especially in the last decade. The following quotation is taken from an article by Edward B. Wilcox, entitled "Social and Economic Trends Affecting Accountancy," The New York Certified Public Accountant, Vol. XV, No. 10 (October, 1945), pp. 505-513. Mr. Wilcox, a leader in his state accounting society and Vice-President of the American Institute of Accountants, in discussing accountants' relations with labor commented as follows:

Now, if labor is to have a voice in management, it will need the guidance of financial statements designed to show what labor needs to know. Here is an opportunity for public accountancy as a profession. The designing of statements and the allocation of revenue and costs for this purpose will require a certain technical skill, but the professional opinion on which reliance may be placed by both management and labor requires a new application of professional integrity. It requires an extension of the accountant's concept of independence. Heretofore, he has held himself independent of the specific management which employed him, but his responsibility has still been largely to the field of business, as represented by combined management, investors, and creditors. To deserve and obtain the confidence of labor, he must be independent of this entire viewpoint. Such a concept of independence gives added force to the words of George O. May that "accounting has developed from a service department of business to become a social force."
representatives of labor that they are impartial. Whether they will be more successful in the future than they have been with the Bureau of Internal Revenue or the Securities and Exchange Commission will hinge upon whether or not Certified Public Accountants remain content with their present role which has tied them so closely to business management.

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10 The following excerpt is from the testimony of Donald Montgomery; Chief of the Washington Office of the UAW-CIO, before the Congressional Joint Committee on the Economic Report hearings on corporate profits:

... we have occasion to examine hundreds of financial reports each year in connection with negotiations. ... there is hardly a device developed by accounting ingenuity to minimize profits which does not appear in the reports we see.

Among the most common are special inventory reserves and deductions for "additional depreciation" and "extraordinary obsolescence." But these by no means exhaust the gamut. There are charges of capital costs to current operations. There are reserves for unspecified contingencies and reserves for losses from foreign operations, as well as other varieties of reserves which the accounting profession condemns and which the United States Treasury refuses to recognize for tax purposes.

Mr. Montgomery also included tables showing examples of accounting devices used to conceal profits for the Committee's perusal. For his full testimony see the following source: "Corporate Profits," Hearings before the Joint Committee on the Economic Report, Congress of the United States, 80th Congress, Second Session. December, 1948. p. 422.
CHAPTER V

EXTENT OF LEGAL BASIS FOR THE PRACTICE OF PUBLIC ACCOUNTANCY

Presumably the raison d'être for professions is in the providing a service which fulfills a human need. Thus, the doctor endeavors to alleviate human suffering, the lawyer to aid in preserving order and justice, and the accountant to seek truth out of the complex business world of today.

It is quite true that upon the diagnosis of the accountants millions of dollars change hands, dollars which may affect the well-being of everyone in the society. That this is well recognized is evidenced by the fact that today we find demands that the books of corporations be made available for inspection by non-management groups so that a determination may be made as to whether the profits of the corporation under scrutiny are reasonable or out of reason. We find large corporations being considered not as private companies but as quasi-public enterprises exercising such a decisive force on our economy and on the economic well-being of all of the people that all people should have the right to judge their performance, which brings one back to the books wherein the performance is recorded. Such a view thrusts the accountant into the middle of a significant social question for his is the profession which is skilled
in abstracting the truth from the books and presenting it in such a form that it can be understood by the labor leader, the congressman, and even by the neglected man of today, the consumer. Whether the accountant's answer will be accepted as the "truth" is quite another matter and will depend upon the independence of the public accountant. By independence one refers, of course, to the accountant's freedom to make dispassionable judgments and to work at all times in an untramelled environment—uninfluenced by groups who would like to control his actions.

The paramount issue then is the question of independence and upon the answer to this question the position of the accountant of tomorrow, or his lack of position, will hinge. Quite naturally we find accountants insisting that they are independent, especially those in the United States where we find other groups repeatedly questioning the "independence" of the accountants—in particular those certified (but only because of the fact that large corporations are usually audited by firms of certified public accountants). To acquaint the reader with the reasoning supporting the claim of independence the following quotation from a Journal of Accountancy editorial is offered as a typical specimen:

It is perhaps understandably difficult for persons unfamiliar with the subject to accept the idea that an auditor can be independent of
the client who pays his fee. It seems contrary to human nature. But it isn't. Intelligent self-interest dictates the auditor's independence. He knows that his opinion on a financial statement wouldn't be worth anything to the client unless other people believed that the auditor was fair and impartial in his judgment.

The code of ethics of the accounting profession is largely designed to safeguard the certified public accountant's independence. There are rules providing stringent punishment for false and misleading statements, prohibiting contingent fees, financial interest in clients' affairs, occupations incompatible with public accounting, commissions, brokerage, and fee-splitting—all intended to keep the accountant out of situations in which his judgment might be wrongly influenced, or might appear to be. The profession as a whole knows that independence is its principal stock in trade.¹

The second paragraph quoted above sets forth the essentials of the rules of professional conduct of most certified public accountants in the United States. They depend heavily upon this code of ethics in maintaining their independence, a fact which should be borne in mind throughout the remaining discussion.

**Legal Basis of the Accounting Profession in Great Britain.** Time cannot be taken in this monograph to set out the tortuous perambulations of the English financial and parliamentary history which led to the Companies Act of 1844. It can be remarked that Parliament viewed with considerable skepticism the coming of joint-stock companies

and grudgingly relinquished the right of incorporation (limited liability) to them. In fairness to Parliament it must also be remarked that some cause for alarm had been provided by the chicanery associated with the South Sea Company and others in the so-called "Bubble Period."

B. C. Hunt has commented upon the Joint Stock Companies Registration and Regulation Act of 1844 as follows:

The Act of 1844 marks an epoch in the history of English company law . . . it initiated the policy of publicity which by gradual evolution has become an outstanding and progressively more pronounced characteristic of company regulation in England . . . . In the main, the framework of today's statutory requirements for concerns formed under general laws has been reared upon the sub-stratum then moulded.2

This Act required the registration of all joint-stock companies having more than twenty-five members and freely transferable shares; newly organized companies had to provide certain information (such as the names and addresses of the promoters and the minimum number of shares that had to be subscribed before shares were allotted) prior to the issuing of the prospectus or accepting deposits on shares. The Act recommended but did not require that a balance sheet be prepared and an audit made each year which were to be filed

annually with the Registrar of Companies, where they would be open to public inspection.3

In 1856, another Companies Act was passed which took a step backwards by knocking out the provision in the 1844 Act regarding the registration of prospectuses. Gradually, however, over the passing years the laws were tightened over the limited liability companies by succeeding companies acts and other acts on specific industries. For example, the contents of prospectuses were closely defined, the liabilities of directors made explicit, and finally the Companies Act of 1900 put the election of auditors in the hands of the stockholders. During the same period other acts covering particular industries including railroads, building societies, banks, and other institutions affected with a public interest were enacted. Most of these acts included the requirement for a compulsory and independent audit.

The effect of this series of acts extending from 1844 to the current century upon British accountancy has been aptly summarized by C. B. Hunt as follows:

For, in correlation with the great expansion of corporate enterprise in the latter half of the nineteenth century, came a marked development of the profession of public accounting and auditing,

3 Ibid., pp. 96-97.
a strengthening of its technique, an elevation of its standards, and the achievement of a position of importance in the business life of Great Britain approached, until very recently, in no other country. Indeed, the development of the profession bears an integral relation to that of corporate organization in Great Britain.

Today, the most important characteristic of English company law and practice is undoubtedly the position of the auditor. With relation both to shareholders and to directors he occupies an independent status. "A watch dog, but not a bloodhound," in the words of a classic dictum, he is appointed by the shareholders and is charged with doing for these silent partners of an enterprise what they might do themselves, if actively engaged in its management.  

The above quotation was written in 1936. Since that time Great Britain has passed the Companies Act of 1947. This act sets forth rather detailed requirements for the presentation of certain items on the balance sheet. For the first time certain information such as the amount of

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5 For example, the reserves, provisions, liabilities and fixed and current assets shall be classified under appropriate headings unless they are not material in amount, or unless they are not separable; fixed assets must be distinguished from current; and the methods used to arrive at the amount of the fixed assets under each heading must be stated. A method for arriving at the amount of any fixed assets is definitively set forth; the aggregate amounts of capital reserves, revenue reserves, and provisions shall be stated under separate headings. These and other extensive requirements are to be found in the latest companies act. Companies Act, 1947. (10 and 11 Geo. 6 Chapter 47). First Schedule, pp. 113-116.
depreciation taken is required to be set forth in the profit and loss statement. Both financial statements are subject to the overriding requirement that the statements present a true and fair view of the company's affairs and profit or loss for the year under audit.

One of the most important changes which has greatly strengthened the position of auditors is the provision for the automatic re-election of the auditors at each annual general meeting without any resolution being passed, unless a contrary resolution is passed. When the intent of the company not to reappoint the auditor is so indicated, a special notice must be given to the stockholders and the auditor. Upon receipt of the notice the auditor then has the opportunity to make representations in writing to the company and, in some cases, he may even have these representations distributed to the stockholders of the company. The auditor may also appear at the annual meeting of the stockholders where he has the right to be heard orally on the matter of his reappointment. The matter of the auditors' tenure of

6 Ibid., First Schedule, pp. 116-117.
7 Ibid., Section 13, p. 11.
8 Ibid., Section 24, p. 20.
9 Ibid., Section 24, p. 21.
10 Loc. cit.
office cannot be over-emphasized. In contrast to the security afforded the British accountant, consider the following statement by George O. May on the matter of tenure as it pertains to American practice:

At the present time auditors hold office usually at the pleasure of the officers of the company. We have all known cases in which the auditor, possibly towards the end of his audit, finds himself unable to approve of the accounts which the officials of the company have prepared, and on informing them of his position, is told, politely or otherwise, to discontinue his work, and later finds a statement issued by the company signed by more subservient auditors. To meet this situation it seems to me that the auditor should be assured of a right to report to the stockholders the results of an audit once he has been commissioned to make it.

I think also that he should not be liable to be superseded without having any opportunity to state his case to the stockholders. I have, therefore, suggested that auditors should be elected by, and should report to, stockholders, and that no auditors other than the retiring auditors should be eligible for appointment unless due notice should have been given to the stockholders and the retiring auditors of the intention to nominate such new auditors. This, as you know, is the rule under the English law.11

The new Act also has provisions which deal specifically with directors of companies. Full disclosure of all emoluments, pensions and compensation is required,12 Now a

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12 Companies Act, 1947, Ibid., Section 38, pp. 34-37.
money value must be placed on all benefits whether cash or not. For example, the accountants will have to estimate the money value of such things as free use of living accommodations and goods and services supplied without charge. This new requirement surpasses in scope the provision under the Companies Act of 1929 which required only the amount of directors' fees paid.\textsuperscript{13} Furthermore, companies cannot make loans to their directors, or guarantee or provide security for any loans made by them.\textsuperscript{14} In listing the directors all other directorships held by each of them, if any, must be set forth.\textsuperscript{15} Finally, the share holdings of each director in the company is to be detailed.\textsuperscript{16} It appears that these rather strict provisions will tend to make directors faithful to their position of trust irrespective of inclinations to be otherwise.

There are many other provisions. One requires more information in prospectuses and makes other refinements in the laws relating to public subscriptions. It is impossible

\textsuperscript{13} Companies Act, 1929. (19 & 20 Geo. 5. Ch. 23). Section 148, pp. 99-100.
\textsuperscript{14} Companies Act, 1947, \textit{op. cit.}, Section 35, pp. 30-31.
\textsuperscript{15} Ibid., Section 37, pp. 32-34.
\textsuperscript{16} \textit{Loc. cit.}
here to catalog and comment upon all of the changes under the new Act but it can be seen from the changes noted that the responsibilities of auditors have been increased but that their position of power has also been measurably strengthened.

This latest companies act may prove to be the capstone of the long series which began over one hundred years ago. The improvements recently made were widely supported by the various groups affected including the accountants themselves. As a matter of fact many of the new provisions were recommended by the Institute of Chartered Accountants in England and Wales. It can be seen from the brief discussion in this monograph that English laws covering the formation, administration and control of corporations are unified, comprehensive, strict without being punitive, and have as their objective the achievement of a nice balance between controls to provide wholesome conduct of corporate affairs and freedom to use the corporation as a useful device in the conduct of the economy. The position of the auditor under these laws has been referred to above and needs little further elaboration. It would be difficult to suggest additional laws to protect British accountants that would
not impair initiative and be unreasonably inflexible.17

Legal Basis of the Accounting Profession in the United States. American laws affecting the public accountancy profession have to be considered at two levels—Federal and State. The various Federal enactments which have touched the accounting profession in the last fifty years will be considered first.

The United States has never had a law which could be considered a counterpart of any of the English companies acts. However, there are a number of laws which form the present legal basis of the accounting profession in this country. The accounting procedures of common carriers

17 The difficulty is to decide to what extent disclosure should be made compulsory by statute and what should be left to the good sense of the directors and to the application of the principles laid down by the auditors.

These words by Chairman Cohen of the Company Law Amendment Committee (England) relative to testimony on proposed amendments to the English Companies Act aptly summarizes the problem facing British legislators, accountants and others during the more than three years of hearings prior to the enactment of the Companies Act, 1947. No matter what the topic, discussion would invariably center around just what should be left to the discretion of directors and/or accountants, and what should be reduced to hard and fast rules. Excerpts from testimony on Proposed Amendments to the English Companies Act, Company Law Amendment Committee (England), February 25, 1944, as reprinted in Office Decisions and Releases, The Journal of Accountancy, Vol. 78, No. 3 (September, 1944), pp. 255-262.
(particularly the railroads) were perhaps the first to be subjected to the affects of Federal law. In 1906 the Interstate Commerce Commission was granted the power to prescribe uniform accounts and to require, under oath, standardized reports, both regular and special, and, in addition, it was given right of access to and examination of the accounts and records of the carriers. Later the Federal Government expanded its accounting controls into other fields considered to be "affected with a public interest." The Federal Water Power Act of 1920 created the Federal Power Commission. In time the Commission's powers were enlarged and since January 1, 1937, electric utilities have had to use the Commission's uniform accounting system. In 1934 the Federal Communications Commission was inaugurated and in 1935 it promulgated a uniform accounting system for telephone companies. The effects of these laws caused one accountant to remark:

It is interesting to note that every move on the part of Government to introduce paternalism, whether for the benefit of the producer, the manufacturer or

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18 The grant of power over accounting systems of common carriers was part of the Hepburn Act of 1906. "Interstate Commerce," New Standard Encyclopedia, Volume V.

the consumer, demands the assistance of our profession either in the development of systems of accounting, or in the prescription of rules as to current accounting, or as to the results thereof as presented in financial statements.20

The control over accounting systems noted above follows the precedent set by English laws covering particular industries. The most significant difference is the lack in American laws of a requirement for a compulsory and independent audit. In fact it has been the writer's observation that the tendency has been to eliminate the audit by public accountants.

A consideration of laws of a more general type will now be attempted. It may be of interest to consider the short-lived National Industrial Recovery Act of 1933. This act would have involved accountants since among other things it called for a computation of the "cost of production" of various items and it was the apparent intent of the act to prescribe uniform cost systems in many of the industries subject to the various codes.21


21 Stewart, Ibid., p. 154.
Another series of enactments of general application has been the income tax laws of the past thirty-five years. These acts subjected all businesses to the general provision requiring measurement of their income by years and this has meant that the keeping of books of account has become mandatory. While these tax acts have been a great boon to the accounting profession they have tied the profession so close to business that businessmen have come to depend upon accountants to blunt the effect of the tax laws as far as is legally possible. This has created a situation in the United States whereby the client businessman and the accountant stand shoulder to shoulder in opposition to the tax collector, a situation which is in sharp contrast to conditions in Great Britain where the accountants stand impartially between the taxpayer and the tax gatherer.\(^{22}\) In fact, except in the case of fraud, in Great Britain the government has no power to send its tax agents to examine the books of a business, but has never asked for or needed such power since audited accounts are presumed to be correct.

Next we must consider those Federal enactments which have perhaps the broadest and most direct application of all such regulations promulgated by the Federal government, viz.,

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\(^{22}\) See Chapter IV.

Accountants and the Securities and Exchange Commission. In the eyes of one writer, "the Securities and Exchange Commission has more influence over corporate accounting in the United States than any other body outside of corporate management and the accounting profession itself." While this observation may be somewhat exaggerated, it is nevertheless true that accountants have worked closely with the Securities and Exchange Commission.

The Securities and Exchange Commission has the power to require its subjects to file a registration statement (which is quite detailed) and to follow certain procedures which it is hoped will enable the prospective investors in corporation securities to obtain sufficient accurate information to make reasonably sound judgments as to the value of the security offerings.

In the course of its duties the Securities and Exchange Commission has examined thousands of financial statements of corporations with securities listed upon stock exchanges. It has prescribed the contents of these statements and it has required that these statements be certified by independent public accountants. The Commission has defined

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what it considers to be an independent public accountant. Rule 2-01 of Regulation S-X\textsuperscript{24} regarding the qualifications of accountants requires that the accountant be in good standing under the laws of his place of residence, and to be independent of the client whose registration statement he is preparing. In other words the Commission's requirement on the matter of independence is defined in terms of restricting accountants from having a financial interest or holding a position in the client's organization as a trustee, director, officer, employee, et cetera. Such a concept of independence is narrow and represents only a minimum attainment insofar as true independence is concerned.

In contrast, for example, to the detailed registration statement required under S-X regulations, Great Britain's Registrar of Companies requires only the audited financial statements and, as stated by Sir Laurence Halsey in a lecture at the Harvard University Graduate School of Business: "... the certification by the auditors and signatures of the directors are accepted by this government department as

prime facie evidence that the accounts have been drawn up properly."25

The registration statements filed by independent public accountants in the United States are reviewed intensively by the Commission. Many registration statements have not met the requirements of the Commission and deficiency letters have had to be issued. It is obvious that the Commission has no doubts whatsoever about the so-called independence of the public accountants they encounter.

In conclusion it can be said that the Securities and Exchange Acts and the interpretations thereof by the Commission not only have increased the liability of the accountants but have also strengthened their position insofar as financial statements prepared for the SEC are concerned. However, the importance of these acts may be questioned. It is true that an improvement has been made in an important field but in terms of all around regulation such as provided by the companies acts in Great Britain, the American effort is not of great significance.

Earlier26 it was mentioned that in discussing laws


26 See Page 74.
affecting the public accounting profession, the efforts of 
The various states must be given consideration. It is re-
gretable from the standpoint of accounting practice that 
state corporation laws are not only of no aid to the pro-
fession but are a definite liability in most states. For 
example, some states allow cash and/or stock dividends to 
be paid from unrealized appreciation of assets.27 This 
obtains from the fact that state legislatures usually 
treated accounting matters with indifference and invariably 
managed to misuse accounting terminology at every turn. 
A partial explanation for this state of affairs arises out 
of the fact that when corporation laws were being framed 
the accounting profession was in its infancy and accountants 
were not consulted by legislators on accounting matters. 

The obsolescence of state corporation laws is common 
knowledge and in recognition of the obvious, the American 
Bar Association in 1889 organized the National Conference 
of Commissioners on Uniform State Laws.28 This organization 

27 H. A. Finney, Principles of Accounting, Intermediate 

28 W. Brooke Graves, Uniform State Action (Chapel Hill: 
laws as a substitute for centralization.29

In 1909 work was begun by the Commissioners to develop a model business incorporation act. Finally in 1926 such an act was completed. It provided for uniform laws relative to incorporation, regulation, merger, consolidation, and dissolution of corporations operated for profit.30 Many of the 69 sections of the model act deal with accounting matters and while they represented a considerable improvement, the subjects covered are relatively unimportant so that accountants would get little comfort from the act even if it were adopted. For example, such provisions as those that require earned and paid-in surplus to be set forth as separate items from appraisal surplus or that dividends not be paid from a surplus account with a deficit balance would add little, if anything, to improved accounting procedures. The act among other things, does not request an audit; nor does it contain provisions to regulate the

29 By "centralization" is meant the increasing tendency of the Federal Government to legislate on matters traditionally thought to be within the province of the states alone. The lack of uniformity in, or absence of, state laws often provides the Federal Government with at least one reason for its legislative program.

sales of securities within the states.

To date, only four states\textsuperscript{31} have adopted it, wholly or in part. If uniform state laws are the only defense against centralization then it can be said that the battle is lost.

Mention should be made of state "blue-sky" laws. Peculiarly enough many of these laws require that financial statements of the security-issuing corporation be certified by independent accountants. It is interesting to note that most of these same states exempt corporations whose securities are listed on leading stock exchanges\textsuperscript{32}

If, therefore, states will not enact uniform incorporation laws, the only possibility for standardization and effective regulation is a Federal licensing or incorporation law. Even if it were declared Constitutional, it would apply only to corporations engaged in interstate commerce.

Until such time as Federal corporation laws are passed which include provisions similar to those of the British

\textsuperscript{31} The four states adopting all or a substantial portion of the sixty-nine sections of the Model Business Corporation Act include Louisiana (1928), Idaho (1929), Washington (1933), and Kentucky (1946).

\textsuperscript{32} Stewart, \textit{op. cit.}, pp. 156-157.
Companies Acts it is the writer's opinion that the American public accountant will continue to be in an inferior position in his relationships with corporate enterprises. And, unless the accountants' position is materially strengthened by Federal enactments patterned after British companies acts, it is doubtful if many groups will accept the accountants' conclusion that a code of ethics ipso facto means independence. American accountants have not been able to convince the United States Government and its agencies dealing with accountants. American Accountants have not been able to convince labor and other groups who usually populate the anti-business camp, nor has the general public been convinced if one can give any credence at all to the public opinion polls.33

It seems apparent that there is no substitute for a legal basis as the keystone in the accounting edifice and whereas British accountants have a veritable mountain of legal underpinning, American accountants have the proverbial molehill.

The following remarks will be concerned with what appear to be fairly obvious and safe observations on the future of accountancy here and in Great Britain.

The Future of Accountancy in Great Britain. Accountants have achieved a high position in Great Britain. Professional accountancy has been and is represented on governmental committees.¹ Accountants have served for decades as de facto revenue agents for the government. English laws have made the accountant a key figure in the business world from the capital-raising activities at the inception of an enterprise, though its life by repeated audits of its accounts and affairs, and at end, if there is one, whether in bankruptcy, reorganization, receivership, or dissolution. British labor people have long used the services of the public accountants to preserve the financial integrity of various social welfare organizations such as their friendly societies, trade-unions, and others.

In the light of these past and present achievements,

¹ Accountants serve in advisory capacities on standing committees of the Board of Trade, the Ministry of Health, the Food Council, and others.
it would seem that professional accountancy in Great Britain could be expected to continue serving in its traditional manner. However, such an assumption would overlook a dynamic political factor—the Labor Party and its socialistic program. We must therefore consider the possible effects upon the future of British accountancy occasioned by the rise of the British Labor Party.

The Chartered Accountants and Socialism. When the Labor Party announced its objectives in the sphere of domestic policy, many accountants both within and outside of the British Isles predicted the end of the accounting profession in Great Britain. It was felt that a socialist government would not long allow its affairs to be subject to independent review and possible criticism.

Subsequent events were reassuring to the accounting profession. For one thing, the various nationalization acts put the affairs of the socialized industries in the hands of independent authorities, not a part of the government administration. This was important for the following reasons: these public-owned industries keep their income and expenditures apart from the national budget, they are not subject to Exchequer administration, they are required to keep separate accounts, and finally, they must publish annual statements just as if they were private businesses.

Furthermore, the audits are conducted by auditors who are members of one or more of the following: the Institute of Chartered Accountants in England and Wales, the Society of Incorporated Accountants and Auditors, the three Scottish bodies of Chartered Accountants, or the Association of Certified and Corporate Accountants.

Although the dire predictions concerning the future of the accounting profession have failed to materialize, yet British socialism has affected the profession in ways which at first were not contemplated. In time it appears that audits will be concentrated in the hands of large firms since the smaller audits and with them the smaller
accounting firms will be materially reduced. The development by all of the socialized industries of their own staffs of internal auditors seems inevitable so that the amount of detailed checking and review done by public accountants will be materially reduced and the audit fees along with it. For example, the National Coal Board has its own internal audit staff and it has already been observed in the coal industry that the total of the fees payable for audits plus the salaries of the newly appointed auditors is less than the total audit fees paid by the coal industry when it was in private hands.

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3 On this point, Alban makes the following observation: . . . arrangements were made, in some cases, for local sections of the accounts of a public authority to continue to be audited, for the time being, by the auditors who previously undertook that task. This, however, is a passing phase.

Broadly, however, it seems inevitable that, while there will still be an independent audit of the accounts of public authorities, there must be an ultimate concentration of this audit work in the hands of the larger firms of practitioners--to the virtual exclusion of many of the smaller firms previously engaged upon this work when the industries were carried on by large numbers of smaller industrial units.

Alban, op. cit., p. 74

4 This does not mean that less detailed checking will be done than formerly; in fact, one would expect that more extensive testing will result from the new situation.

5 Alban, op. cit., p. 75.
Let us consider still another effect of socialization. The new public authorities are in reality super-giant corporations and of necessity operate upon a vast scale. The complexity of each industry and the new layers of management have of necessity put heavy demands upon the accountants in public authorities to develop accounting still further for purposes of control and, of course, management. It is almost certain that the public authorities will more than absorb accountants displaced by the nationalization program. In fact, Alban⁶ in discussing the possible effects of socialism, suggests that the destruction of the smaller public accounting firms may impair the source from which the state industries can draw men for the key accounting positions. On the other hand the elimination of the smaller firms, where men can receive a variety of experience under conditions impossible to duplicate within the offices of industrial enterprises, cannot be conceded yet since it is estimated that "eighty per cent of industry and distribution remains in the hands of private enterprise, albeit subject to a considerable measure of control."⁷

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⁶ Alban, ibid., p. 77.
⁷ Ibid., p. 76.
Considering, for a moment, the training of chartered
accountants and others in the future it is apparent that
more emphasis will have to be given to the subject of
industrial accounting (costs--both manufacturing and dis-
tributive) and it appears that more accountants will be
trained in English universities and colleges where they will
receive a somewhat broader education than has been provided
by the agencies of the professional accounting bodies in
the past.

It would appear the British accountants will indeed
survive and may well be expected to continue their role
as "supremely important checkers of industrial efficiency,
whether privately or nationally owned." In so far as net
operating profit, under state socialism, may be viewed as
an index of industrial efficiency, it may be expected that
public accountants will continue their traditional role
modified only by a new setting.

The Future of Accountancy in the United States. Mr.
Warren W. Nissley, in lecturing to a seminar group in accounting
at Columbia University in December, 1936, remarked (in essence)
that, while he was deeply apprehensive about President Franklin
D. Roosevelt's solutions for the country's economic

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8 Ibid., p. 77.
and social ills, he felt that the accounting profession would soon grow in prestige and importance. Accountant Nissley based his hopes for a better accounting profession upon the following points:

1) Wider diffusion and more complete information about the affairs of business enterprises,
2) More government control of commercial and financial practices of business enterprises,
3) "Trust-busting" policies in an attempt to reduce the size of corporate entities, and
4) Higher tax rates and a more complicated tax system.

The above program, if it materialized into positive governmental policies as Nissley expected, would affect accountants. The providing of more public information about securities, the preparation of cost studies for a law such as the Robinson-Patman Act, the unscrambling of the accounts of holding companies, and the solving of tax questions occasioned by the increased complexity of taxes—all these things would require the services of the accounting

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10 Ibid., p. 102.
profession. And so we find the accountant, who was so
distrustful of the President's policies, basing his pro-
ession's hopes for the future mainly upon the effects
upon our economy of such New Deal creatures as the Securities
and Exchange Commission, the Robinson-Patman Act, drastic
revisions in Federal tax laws, various Social Security Acts,
and many others.

In the present decade accountants are still finding
changes being introduced into the old order of things. The
war, with controls and increased taxes, provided further
impetus to the growth of the profession in numbers and in
importance. Today, the accountant is being considered for
a role in labor-management relations. Thus, gradually
the possibilities of accounting as a social force are being
recognized. It is hoped that the accountants can rise to
the occasion.

The Certified Public Accountants and the Non-certified
Groups. The various aspects of the struggle between the
certified men and the other public accounting groups were
recounted in Chapter III. Little can be added here except
to re-emphasize the seriousness of the present situation.

11 See, for example, the following article: Fred E.
King, "Is There a Field for Accountants in the Future of
Labor Negotiations?," The Journal of Accountancy, Vol. 34,
No. 1, (July, 1947), pp. 10-12.
In legislative years, the professional standards of certified public accountants have been repeatedly in jeopardy as well-organized public accounting groups surged into the legislative hearings usually intent on lowering professional standards. To justify their actions they charge the Institute with being a monopoly and attempting to restrict the number of accountants.

When one considers the needs of the accounting profession for highly-trained, competent men and the fact that college-trained students seem to be able to pass the Institute's accountancy examinations without too much difficulty, it does not seem that the sinister charges made against the Institute have much validity. Obviously some non-certified accountants will never be able to pass the Institute examinations. The reason is simply that

12 In a letter dated June 30, 1949, the State Society Service Department of the American Institute of Accountants reported upon accountancy legislation activities in adjourned legislatures at that time. Of thirty-five states surveyed, nineteen had had accountancy legislation introduced of a type which would weaken or repeal present laws on accounting matters.

13 Those who complain that the Institute's examinations are too difficult should consider British experience on this matter. There, despite the fact that the candidates are usually handpicked, the "mortality" rate is approximately 50%.
they are either not adequately prepared either by education or experience, or possibly, both. In any other profession these accountants would have never been allowed to "enter" the profession.

The possible double tragedy is that the work of American collegiate business schools will be sacrificed along with professional standards just when the supply of properly trained public accountants is virtually assured and the actual educational and training standards of the professional have been raised far above most states' requirements.

14 Statistics compiled by the American Institute of Accountants show that the amount of education and experience are factors in passing the CPA examinations. Following are the results from four different examinations:

<table>
<thead>
<tr>
<th>Education</th>
<th>May 1944</th>
<th>Nov. 1943</th>
<th>May 1943</th>
<th>Nov. 1942</th>
</tr>
</thead>
<tbody>
<tr>
<td>Noncollege</td>
<td>7.2%</td>
<td>8.8%</td>
<td>10.3%</td>
<td>19.1%</td>
</tr>
<tr>
<td>College</td>
<td>15.6%</td>
<td>12.4%</td>
<td>14.6%</td>
<td>21.7%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Experience</th>
<th>May 1944</th>
<th>Nov. 1943</th>
<th>May 1943</th>
<th>Nov. 1942</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public accounting</td>
<td>12.2%</td>
<td>11.5%</td>
<td>14.3%</td>
<td>20.2%</td>
</tr>
<tr>
<td>No public accounting</td>
<td>5.7%</td>
<td>8.2%</td>
<td>9.1%</td>
<td>19.7%</td>
</tr>
</tbody>
</table>

It is difficult to appraise the final outcome of this internecine struggle. The certified group is better organized and has considerable prestige and influence; the non-certified group has a substantial numerical superiority and is well organized in some states. The Institute has urged its members to participate more in public affairs (like lawyers) in order that the man in the street will become better acquainted with them. The Institute has urged state societies to cultivate the non-certified groups and to provide such services as coaching schools to help public accountants to adequately prepare for C.P.A. examinations. It is to be hoped that the struggle will eventually be resolved in favor of not only keeping the present standards but of substantially raising them in many states.

The Certified Public Accountants and the Legal Profession. In recent years there has been developing between lawyers and accountants what, in the parlance of labor and industry, would be termed a "jurisdictional dispute." The assault has been initiated by the legal profession. It has involved the rights of accountants to deal with tax matters. On the national front certain members of the legal

15 Such a school was set up by the Missouri Society of Certified Public Accountants and has been most successful.
profession attempted unsuccessfully to prevent Certified
Public Accountants from practicing before the Tax Court. On the state level, only two cases will be mentioned. One
is the now famous Berceu case in the State of New York. This action involved a certified public accountant who was
acting solely as a tax consultant. He had not made an
audit of his client's accounts but he did prepare an opinion
on a tax matter and the New York Bar Association inter-
preted this as an illegal practice of law. The trial court
held for Berceu but the decision was reversed by the Appellate
Court and the reversal was subsequently sustained by the
New York Court of Appeals.

The second case involved a non-certified public

16 Page 57

17 Action against Bernard Berceu, a certified public
accountant, was brought by the New York County Lawyers
Association in 1944. The trial court decision in 1947
favored Berceu, however, the New York County Lawyers
Association appealed this decision and the New York
Appellate Court reversed the trial court decision in
the spring, 1948. Then Berceu appealed this decision but the New York Court of Appeals upheld the Appellate
Court on July 19, 1949.

Official Decisions and Releases, The Journal of Account-
ancy, Vol. 83, No. 4 (April, 1947), pp. 342-343 and
Vol. 88, No. 3 (September, 1949), pp. 255-256.
accountant in Minnesota. The Minnesota Bar Association challenged the right of the accountant to decide the question of the deductibility of certain items for tax purposes, to decide whether certain kinds of expenditures were of capital or non-capital nature, and to advise the taxpayer as to whether he should file a separate or joint return. If the Bar Association's case is successful it will mean that accountants will have to hire lawyers to look over their shoulders as they prepare income tax returns for their clients.

Despite high sounding reasons given by the lawyers in their efforts to engross part or all of the tax practice of accountants, certain facts become glaringly apparent. Tax work is both lucrative and steady. Its stability in good times and bad is partly the reason for the fact that earnings of accounting partnerships have remained relatively stable over the years irrespective of the economic ups and downs. It is this very lack of such stabilizing elements that characterizes the legal work and has made the profession such a dreary one in depression times.

18 An action charging unauthorized practice of law was brought in Ramsey County, April 2, 1948, by the Minnesota Bar Association.

When one adds to the above picture the thought that the legal profession has certain unique advantages in its acquisitive activities on the tax practice of accountants, it is easy to see why lawyers have pushed their attacks into the open. The struggle may be settled by courts and legislatures. When we consider that all judges are ex-lawyers and that legislative halls fairly bristle with attorneys, there may be cause for alarm from the accountant's standpoint.

Just what the outcome of this impasse will be is far from certain at this writing. One favorable aspect from the accounting standpoint is the fact that the two professions have worked closely and well in past years. Also there seems to be a number of attorneys who disapprove of the "featherbedding" efforts of some of their brethren. 19

19 Consider, for example, the following excerpt from an editorial in the Columbia Law Review:

To require admission to the bar as a prerequisite to unfettered practice before federal agencies seems an unnecessary burden to put on these men who are experts in their fields. It betrays a narrowness of outlook for the legal profession to regard as imposters, trained men who are fully entitled to the advantage of professional status, often to the same extent as members of the bar.

The public is not interested in maintaining a legal monopoly for that fact in itself, but only where it is necessary to insure competent and honest help in solving certain types of problems. Groups of lay practitioners which have proved their competency in specialized fields
It is upon these dissenting lawyers that the hope of the
accounting profession to preserve the status quo in the
tax field probably rests since it seems clear that a total
effort on the part of the legal profession to achieve a
"tax monopoly" could not be stopped solely by the accounting
profession itself.

The Certified Public Accountants and Labor. "The
impact of almost daily tilts with accountants, some of
them called leaders in their profession, often leaves
little doubt that their loyalties to management are stronger
than their sense of responsibility to the investor."20 If
one were to add to this statement the phrase "and labor"
he would have a conclusion acceptable to many labor leaders.

19 (Continued) can be required to maintain the high
standards of professional conduct necessary to protect the
public from unethical activity. If they do so, there seems
to be no justification for ousting a group simply because
some of its functions overlap those in which lawyers engage.

... The conclusion to be drawn would seem to be that
any ban on non-lawyer practice before federal agencies would
be undesirable.

"Proposed Restriction of Lay Practice Before Federal
Administrative Agencies," Notes, Columbia Law Review,

20 A statement attributed to James M. Landis during
the period when he was chairman of the Securities and
Exchange Commission.
Regrettably, until the present decade, few accountants cared what labor or its representatives thought about anything.

In recent years the attitude of labor has received the attention of an increasing number of accountants; of whom some have presented the view that the establishment of industrial peace (perhaps the most critical economic and social problem of present times) is partially an accounting problem. In discussing this idea, Brink said: "Industrial unrest is, at least in part, based on a belief that labor's share of the economic product is not as large as it should be."21

The thought has been advanced by Brink and others that if accountants would recast the terminology of financial statements so as to de-emphasize the importance of profits and the differences between wages and dividends and present the financial story in terms of a partnership wherein the profits are shared by laboring, investing, and management groups, they could lay the groundwork that would facilitate the realization of industrial peace. Brink suggests that corporate financial matters should be reported so as "to

show how the total receipts of the business were expended under such captions as (a) cost of goods and services bought from others, (b) cost of human energy (wages and salaries), (c) cost of tools wearing out (depreciation, obsolescence, etc.), (d) cost of payments ordered by government (taxes), and (e) cost of using the tools (profit)."22

Obviously, the success of such innovations, whether those noted above or others, hinges upon whether or not labor would accept the accountant's representations as being authentic and reliable. In the writer's opinion there is little reason to assume any wide acceptance in labor circles of the idea that the public accountant is independent of management. Therefore, it is once again evident that the accountants' independence is the spit upon which the whole matter of their reliability turns.

As one might anticipate the question of independence arises in most every article dealing with accountants and labor. A typical statement follows: "If labor and the public need today to be convinced of the reliability of corporate reporting, it is because the public accountant has thus far failed to establish his independence in their

22 Ibid., p. 389.
eyes." 23 It is at this point and with little or no discussion that the accountant-writers dismiss the possibility that they might not be independent and hurry on to state that the accountants have been poor at public relations. Yet these same writers, on other occasions, will present articles disclosing practices in financial reporting that are plainly misleading. 24 Where financial reports of this type are issued there is an inference that accountants have merely gone along with corporate management which is precisely what the critics of the accounting profession maintain is commonplace.

To digress a moment from the American scene but not from the general topic, let us consider a comment upon the role of the accountant in British industry:

In some industries wages vary according to sliding scales agreed between the trade-unions and the associations of employers, sliding scales which depend either on the price of the product or upon the profits of the business,


and in these cases the figures supplied by or agreed between professional accountants representing employers on one side and employees on the other, are accepted without question as the basis of calculating the wages. In this way the accountant plays his part in the preservation of harmonious relations between employer and employee. 25

It is to be hoped that someday the same remarks can be said of the Certified Public Accountant of Tomorrow.

The Certified Public Accountants and Business. Up to the present time the certified public accountant has owed his position largely to his association with American business and in particular, corporate business. It is not inconceivable that the certified public accountant may in the immediate future be able to help corporate business maintain its present status of private ownership. Increasingly people are recognizing the public nature of the big industrial corporations, operated by self-perpetuating oligarchies of non-owner managers who are far beyond the control of their diffused and numberless stockholders. Pressures have been building up on all sides in recent years for more and more governmental controls over these autonomous mass-production units. If these pressures are resisted successfully, someone must pass judgment on whether profits are reasonable, whether management compensation is reasonable, and whether

25 Halsey, op. cit., p. 130.
other matters, thought to be of public concern, have been fairly handled. To be successful, the "judge" must command the respect of all social groups. For this role of impartial arbitrator, the certified public accountant is a logical person provided business will free him from his present dependent position. Public opinion studies tend to show that at the present time non-business groups would not accept the word of a certified public accountant as to whether, for instance, profits were reasonable or not any more than they would take the word of corporate management.26

One writer has stated the problem this way:

The people as a whole are apparently not thoroughly convinced that big business is not inclined to exploit them—as consumers, as workers, as investors.

It will be hard to convince them unless they believe the facts and figures that business can

26 Indicate of the American Institute of Accountants' concern over this fact is the Institute's own efforts on the matter of public opinion. In its pamphlet entitled "Public Opinion and the Accounting Profession" it states, "In a recent poll, only seven percent of those queried voluntarily mentioned the independent auditor's report as a factor adding credibility to financial statements."

The Controllership Foundation in 1947 made an exhaustive survey of public opinion and found a "wide mistrust of financial statements, erroneous ideas of profits, and confusions over the language in which business reports facts to the public."

present in its own defense... The accounting profession's greatest social responsibility is to maintain and strengthen public confidence in financial reporting.27

Currently the picture is anything but reassuring for the chances of accountants to play the broader role of public confidant. During the recent inflation period accountants have been under severe pressure from business and particularly the large corporations upon whom a large part of the accounting profession is dependent financially. One has but to peruse the various accounting publications to detect these pressures and to see the accountants debating with themselves as to how many standards they can change and still maintain a semblance of self respect.28


28 Cost as a basis for depreciation policies is one of the accounting standards under heaviest fire by business groups. Accounting journals fairly bulged with articles on this subject during 1947 and 1948. When the controversy over the basis for depreciation began, the Committee on Accounting Procedures of the American Institute of Accountants stated that cost was the preferable basis. Later, Kohler, in commenting upon the committee's stand, said: "However, it is not likely that the committee will hold out much longer against the pressure now being applied by business groups in an effort to inflate the depreciation base and thus support, partially at least, current prices and profits."

Today the emancipation of the certified public accountants appears distant. Yet, the ones who could gain the most from their freedom are the very corporation managers who today are trying to bend the accountants to their own preconceptions about accounting principles.

The Certified Public Accountants and Government. Very few American accountants have a very clear picture of their position with respect to the Federal Government, either in terms of responsibilities to their government or in terms of acknowledging how they have benefited from and how dependent their position is upon Federal enactments. The real growth in the accounting profession in the United States is due mainly to two things; first, immense expansion of American industry requiring intricate accounting procedures, and, second, the Federal income tax.

American accountants have recognized and acknowledged the contribution of American industry to their profession but what has been their reaction to the second factor. Over the years leading American accountants have repeatedly and bitterly lashed at Federal taxes—many times on technical grounds, such as criticising the complexities and inconsistencies; but more often on grounds of policy and social aims, such as charging that the rates are
confiscatory, or venture capital is being dried up. No one would deny to the accountant his right to question technical matters but when he assumes the responsibility of publicly attempting to influence social and economic policies he runs the danger of identifying himself with some special interests—perhaps the National Association of Manufacturers or the United States Chamber of Commerce.

Ideally the professional man is essentially cool, analytical, and unbiased—the arbitrator, the truth-seeker. Therefore, in lining up with special interest groups, the accountant in his professional capacity is endangering what little independent status he now enjoys. For instance, the lack of labor's confidence in public accountants is due in large measure to the fact that accountants in past years have closely allied themselves with interests considered inimical to labor.

29 For example, on the matter of venture capital, Mr. Paton, accountant, at the Congressional hearings on corporate profits, stated, "The fact of the matter is that the forgotten man of the present era is the common stockholder, the chap who provides risk capital." Paton's solution to the common stockholder's problem would be to eliminate taxes on corporations whom he felt had "occupied a whipping-post position in this country for some time."

Few accountants are aware of how indebted the accounting profession is to Federal enactments. Consider the import of the following comment: "Undoubtedly the excess-profits-tax legislation of 1917 was the great single force in the elevation of the public accountant from the status of master bookkeeper to member of an honored profession."30 The new and highly complex provisions of the war revenue bill of that bygone day had this effect—prior to its existence only five to ten per cent of American business organizations used the services of public accountants; within the next few years after the act it has been estimated that these percentages were almost reversed.

Any further strengthening of the position of the accounting profession, in terms of freeing it from business influences and attempts to reduce the financial statements to arbitrary creatures of management, is almost sure to come from Federal enactments alone. Accountants should be chary of carrying their public comments beyond technical questions—if only for the impression created in the minds of labor groups and the public at large.

Summary and Conclusions. Considering first the accounting profession in Great Britain it would appear that its role in the semi-socialistic economy will not be less important than its past contributions to British private enterprise. The assumption that socialism means the end of professional accountancy seems to have no solid basis in fact. It may well be that the Labor Party in its efforts to solve the problems of the British economy will present the accounting profession with problems far more intricate and challenging than it has ever before encountered. It is significant that at this writing British professional accountancy bodies are seriously considering the problem of training public accountants. Such an attitude augurs well for the future of British accountancy for it would seem that the profession has no intention of yielding its high position merely because of a change in social and economic environment.

What of the Certified Public Accountant of tomorrow in the United States? Briefly, the picture of the future contains the following elements. On the one hand we have an industrial society dominated by corporate enterprise. Many of these corporations are so powerful they are virtually "out of bounds" as far as effective state control is concerned and they are also usually able to circumvent
the attempts at control by the Federal government. On
the other hand we have the accounting profession which is
attempting to enhance its prestige by broadening its
functions in society so that it can, for example, pro-
vide impartial experts to settle industrial disputes.
Throughout its life the accounting profession has been
financially dependent upon the corporations but neverthe-
less it contends that it is truly independent of the cor-
porate group. For the most part the profession has had to
depend upon its ethics to maintain its independence since
nowhere in Federal law can the accountant find refuge and
aid in any dispute he may have with a client corporation.
When he leaves a job because of ethical considerations
he has no audience to tell his side of the dispute and on
the other hand, the corporate management may circulate the
story that the accountant was fired for "incompetence."
Few accountants have complained of this lopsided situation
but, in the writer's opinion, it seems that the scales of
economic power are unbalanced and in need of redressing
in favor of the accounting profession.

The equalizer in this picture, if there is to be
one, can only be Federal enactments which will include
much of the protectional devices for auditors provided in
British laws plus the transfer of the right to charter all
corporations to the Federal government and with the subsequent annulment of all charters previously granted by the states. Only through enactments by the Federal government will the accountants achieve that independence which should be characteristic of the professions. In such an event the way would be clear for the Certified Public Accountant of Tomorrow to make accounting a social force and perhaps, a powerful weapon in dispelling social and economic unrest within the United States.
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APPENDIX B
The following material is the complete text of the rules of professional conduct of the American Institute of Accountants as revised December 4, 1948:

(1) A firm or partnership, all the individual members of which are members of the Institute, may describe itself as "Members of the American Institute of Accountants," but a firm or partnership, not all the individual members of which are members of the Institute, or an individual practicing under a style denoting a partnership when in fact there be no partner or partners, or a corporation, or an individual or individuals practicing under a style denoting a corporate organization shall not use the designation "Members of the American Institute of Accountants."

(2) A member shall not allow any person to practice in his name who is not in partnership with him or in his employ.

(3) Commissions, brokerage or other participation in the fees or profits of professional work shall not be allowed directly or indirectly to the laity by a member.

Commissions, brokerage or other participation in the fees, charges or profits of work recommended or turned over to the laity as incident to services for clients shall not be accepted directly or indirectly by a member.

(4) A member shall not engage in any business or occupation conjointly with that of a public accountant, which is incompatible or inconsistent therewith.

(5) In expressing an opinion on representations in financial statements which he has examined, a member shall be held guilty of an act discreditable to the profession if:

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1 From a booklet entitled "By-Laws, Rules of Professional Conduct, 1949-1950," which is available to all members of the American Institute of Accountants.
(a) He fails to disclose a material fact known to him which is not disclosed in the financial statements but disclosure of which is necessary to make the financial statements not misleading; or

(b) He fails to report any material misstatement known to him to appear in the financial statement; or

(c) He is grossly negligent in the conduct of his examination or in making his report thereon; or

(d) He fails to acquire sufficient information to warrant expression of an opinion or his exceptions are sufficiently material to negative the expression of an opinion; or

(e) He fails to direct attention to any material departure from generally accepted accounting principles or to disclose any material omission of generally accepted auditing procedure applicable in the circumstances.

(6) A member shall not sign a report purporting to express his opinion as the result of examination of financial statements unless they have been examined by him, a member or an employee of his firm, a member of the Institute, a member of a similar association in a foreign country, or a certified public accountant of a state or territory of the United States or the District of Columbia.

(7) A member shall not directly or indirectly solicit clients by circulars or advertisements, not by personal communication or interview not warranted by existing personal relations, and he shall not encroach upon the practice of another public accountant. A member may furnish service to those who request it.

(8) Direct or indirect offer of employment shall not be made by a member to an employee of another public accountant without first informing such accountant. This rule shall not be construed so as to inhibit negotiations with anyone who of his own initiative or in response to public advertisement shall apply to a member for employment.

(9) Professional service shall not be rendered or offered for a fee which shall be contingent upon the
findings or results of such service. This rule does not apply to cases involving federal, state or other taxes, in which the findings are those of the tax authorities and not those of the accountant. Fees to be fixed by courts or other public authorities, which are therefore of an indeterminate amount at the time when an engagement is undertaken, are not regarded as contingent fees within the meaning of this rule.

(10) A member shall not advertise his professional attainments or services:

(a) The publication of what is technically known as a card is restricted to an announcement of the name, title (member of American Institute of Accountants, CPA, or other professional affiliation or designation), class of service, and address of the person or firm, issued in connection with the announcement of change of address or personnel of firm, and shall not exceed two columns in width and three inches in depth if appearing in a newspaper, and not exceed one-quarter of a page if appearing in a magazine or similar publication.

(b) A paid listing in a directory is restricted to the name, title, class of service, address and telephone number of the person or firm and it shall not appear in bold type, box or other form of display or in a style which differentiates it from other listings in the same directory.

(11) A member shall not be an officer, director, stockholder, representative or agent of any corporation engaged in the practice of public accounting in any state or territory of the United States or the District of Columbia.

(12) A member shall not permit his name to be used in conjunction with an estimate of earnings contingent upon future transactions in a manner which may lead to the belief that the member vouches for the accuracy of the forecast.

(13) A member shall not express his opinion on financial statements of any enterprise financed in whole or in part by public distribution of securities, if he owns or is committed to acquire a financial interest in the enterprise which is substantial either in relation to its capital or to his own personal fortune, or if a
member of his immediate family owns or is committed to acquire a substantial interest in the enterprise. A member shall not express his opinion on financial statements which are used as a basis of credit if he owns or is committed to acquire a financial interest in the enterprise which is substantial either in relation to its capital or to his own personal fortune, or if a member of his immediate family owns or is committed to acquire a substantial interest in the enterprise, unless in his report he discloses such interest.

(14) A member shall not make a competitive bid for professional engagements in any state, territory or the District of Columbia, if such a bid would constitute a violation of any rule of the recognized society of certified public accountants or the official board of accountancy in that state, territory, or district.

(15) A member of the American Institute of Accountants engaged in an occupation in which he renders services of a type commonly rendered by public accountants, must observe the by-laws and rules of professional conduct of the Institute in the conduct of that occupation.

(16) A member shall not violate the confidential relationship between himself and his client.