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SESSION I:
Moderator: Ashton C. Bishop, Jr.
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THE INFLUENCE OF FIRM SIZE, STRATEGY, AND STRUCTURE ON THE DEVELOPMENT OF ACCOUNTING, 1776-1989

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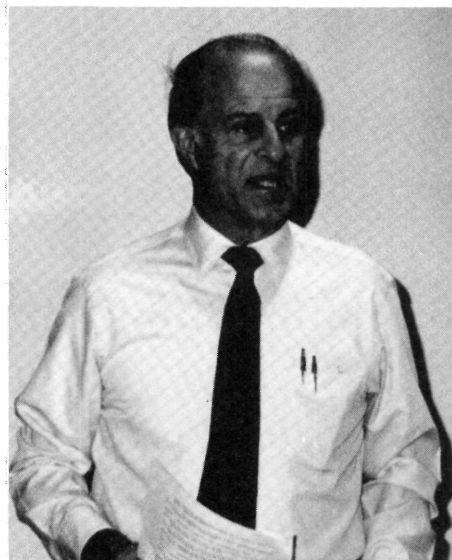
This paper is a portion of a line of research based on the premise that one's ability to understand and explain the existence of a particular firm's accounting practices, or of typical firm accounting practices, is enhanced by an understanding of the economics of the firm. Both firms and accounting have existed for a long time, having developed together over many centuries. The focus in this paper is on developments in firm size, in firm strategy regarding vertical integration and diversification, and in form of organization as influences on the development of accounting.

A brief summary of an earlier paper can provide useful background. The firm is viewed as an economic unit directed by one manager or management team that acquires, divides, and combines resource inputs to produce one or more product outputs in order to create wealth. This view of the firm was found to have important implications for accounting, as firm accounting practices are shaped by the fundamental characteristics of firms.

Six psychological and economic considerations were identified as influencing the development of firms, and through firms, accounting. They were: bounded rationality, the prevalance of self-interested (opportunistic) behavior, firm



uniqueness, externalities and dilution of cost/benefit consequences, cost of information, and information losses in communication processes. These basic (Tier I) influences support seven Tier II influences (but not via one-to-one connections): separation of ownership and management, income taxation, regulation of financial reporting and auditing, control loss in large organizations, performance evaluation and incentives, asset specificity and redeployability, and indivisibilities and economies of scale. A number of developments in the historical evolution

of accounting were identified as emanating from those thirteen influences.

In this paper, the influence of firm size, strategy, and structure on accounting are investigated. Those influences are indeed substantial. They are summarized in this abstract in the form of a series of propositions (hypotheses with varying probabilities of acceptance, with or without further research) regarding developments in accounting.

Size of Firm

The tendency of increasing size of firm to challenge the bounds of human rationality (including memory) has stimulated the development of accounting for thousands of years.

The communication problems, coordination difficulties, and bureaucratic tendencies plaguing the managements of large firms have stimulated the evolution of control-oriented accounting procedures such as budgeting, standard costing, segment performance reporting, and variance analysis.

Both motivation to work toward firm objectives and direct observability of individual performance are impaired as size of firm increases. Therefore, accounting-based performance reports are more fully developed in large firms than in small ones.

As size of firm increases, opportunistic behavior and incentive dilution encourage managements to make greater use of internal control devices such as separation of duties and internal auditing.

Increasing specialization of labor in growing firms stimulates an interest in financial information about specialized activities and makes the gathering of cost and revenue data about those activities easier, thus leading to the development of finer classifications of data on specific functions.

Developments of more economical, high volume data processing equipment and techniques are largely attributable to large firms.

Growth Strategy

In the absence of market prices for activity inputs and outputs that are observable by the management of a single-activity firm, managers in the integrated firm with several sequential activities seek substitutes for use in measuring activity inputs and outputs. Accounting has developed such substitutes. For performance evaluation, accounting has developed the concept of responsibility accounting and performance reports that show actual results alongside budgets or standards. For technology decisions, accounting has developed the cost-tracing form of product costing and a variety of ad hoc analytical techniques. Limited development of transfer pricing schemes not based entirely on cost tracing is observed, but they rarely are applied to transfers among activities in the same product division. In sum, accounting measurements play the same role in guiding decisions made in the management of a set of activities making up an integrated firm that market prices play in guiding such decisions when a set of activities is distributed among several unintegrated firms.

One is inclined to speculate that the influence of regulation on external financial reporting, the importance of verifiability to transferrers and transferees with conflicting interests, uniqueness of the intermediates being transferred, and cost of information have tended to inhibit further development of market-related transfer pricing.

The production of multiple products in one plant obscures product cost data and contributes to the development of complex product cost accounting systems. Other things remaining equal, multiproduct plants develop more refined systems for measuring product costs than do single-product plants.

Organizational Structure

The multidivisional form of organization has replaced the functional form in many large firms, accompanied by development of profit center reporting, transfer pricing techniques, and emphasis on return on investment and, to a limited extent, residual income.

Certain problems plaguing managements of large firms — especially losses in transmissions and coordination difficulties — suggest that the more complicated and varied the business (e.g., number of products, location, technology, marketing channels, government relations) the smaller (in revenues) the size limit for a firm organized functionally and the more likely the firm is to adopt the profit center form of organization and accounting. The product division form of organization dominates the functional form in diversified firms.

A firm is not likely to adopt profit center accounting if interactivity transfers are not measurable by close surrogates for observable market prices; cost center accounting will prevail. For example, a proprietary product is likely to be transferred from manufacturing to sales at cost rather than a transfer price that yields a profit or loss to manufacturing. Thus, the form of organization is partly determined by information availability.

This series of propositions regarding the influence of firm size, strategy and structure on the development of accounting is presented for examination by others interested in the general area of the development of accounting in firms.

THE EVOLUTION OF THE 'UNIFORM' CPA EXAMINATION

by
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Motivated by curiosity and by concern with the recently adopted changes to the format of the CPA Exam and also by a desire to understand better what possessing a CPA certificate really means, this paper analyzes the evolution of the CPA Exam from its beginning through the adoption of a uniform content and format. This paper also compares the exams taken by our professional forebears to the modern examination. One motivation for the paper is a curiosity concerning the level of truth associated with a common perception of many CPAs that the exam is getting progressively more difficult. If this perception is true, then the earliest examinations, when contrasted with current exams, must have been comparatively easy. This look back at the past also is motivated by recently adopted proposals to change the format and structure of the CPA examination for the first time in many years. Finally, a review of the past century of exams provides perspective to

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