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## **EARLY CANADIAN FINANCIAL STATEMENT DISCLOSURE LEGISLATION**

*Abstract:* The Ontario Companies Act of 1907 was one of the earliest legislative enactments to require presentation at company annual meetings, and specify the content of, the financial statements of commercial and manufacturing companies. The study describes the background to this important event and points to the two main influencing forces—the office of the Provincial Secretary and the equally active and informed Institute of Chartered Accountants of Ontario. The concern for disclosure suggests that Ontario was in the forefront of accounting development in the latter part of the nineteenth and the first decade of the twentieth centuries.

The turn-of-the-century financial statement requirements of the Canadian Province of Ontario constitute one of the earliest pieces of legislation in English-speaking countries to mandate shareholder disclosure of income statement and minimum balance sheet information for general commercial and manufacturing corporations. The background to this legislation exposes the complex and intermingled influences underlying this important event. Such influences as existing disclosure in regulated industries, an active and progressive-minded office of the Provincial Secretary in charge of Companies Act legislation, a political and economic environment that developed a tradition for government intervention and for federal-provincial jurisdictional disputes in commercial and industrial activities, an awareness and concern for recommended accounting changes in other countries, and a remarkably active and well-informed provincial association of accountants, the Institute of Chartered Accountants of Ontario (ICAO), all figured prominently in establishing the legislation.

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This study attempts to describe and assess influences which brought about this financial statement legislation. The evidence derives mainly from bills and statutes of provincial and federal jurisdictions, minutes of the ICAO, files of the office of the Provincial Secretary and corporate financial statements of the first decade of the twentieth century. The sequence of discussion relates to the legislation in question, the political and economic environment in Ontario that supported such legislation, the prominence of the ICAO, the activities of the office of the Provincial Secretary, the influence of the legislation including its impact on corporate financial statement reporting practices and lastly, some concluding comments.

### *Early Ontario Companies Acts Legislation*

The Ontario Companies Act of 1907 is likely the most path-breaking piece of corporate disclosure legislation in Canadian history.<sup>1</sup> According to its chief architect, Assistant Provincial Secretary Thomas Mulvey, the Act attempted to prevent stock promotional abuse, to consolidate the legislation relating to numerous commercial enterprises which had previously commanded individual legislation, and to incorporate some of the regulatory features of the optional First Schedule requirements of the English Companies Act of 1862.<sup>2</sup> Of particular importance were the compulsory requirements to file a prospectus, to engage an auditor, and to provide an income and expenditure statement and a detailed balance sheet to shareholders at the annual meeting.<sup>3</sup> The sections of the 1907 Act containing financial statement requirements for annual meetings are reproduced in Figure 1.

The requirement to present an income and expenditure statement at the annual general meeting was carried forward from the legislation of 1897.<sup>4</sup>

### *The Political and Economic Environment in Ontario*

Though Canada, and particularly Ontario, inherited many of the traditions of Britain, the size, proximity, and power of the United States presented examples to be followed. In Canada, size, regionality, and ethnic differences (Quebec) pointed towards the adoption of a federal system of government as opposed to the unitary system of Britain. The provinces had powers relating to local concerns such as property, civil rights, civil law, education, provincial company charters, municipal government and direct taxation. The

**Figure 1**

**Financial Statement Disclosure Requirements of the Ontario Companies Act, 1907. Selections from Section 36.**

- 36 (2) At such meeting the directors shall lay before the company,
- (a) A balance sheet made up to a date not more than three months before such annual meeting;
  - (b) A statement of income and expenditure for the financial period ending upon the date of such balance sheet;
  - (c) The report of the auditor or auditors;
  - (d) Such further information respecting the company's financial position as the Letters Patent or the by-laws of the company may require;

and, on resolution affirmed by shareholders holding at least five per centum of the capital of the company, shall furnish a copy thereof to every shareholder personally present at such meeting and demanding the same.

- 36 (3) The balance sheet shall be drawn up so as to distinguish at least the following classes of assets and liabilities, namely:
- (a) Cash;
  - (b) Debts owing to the company from its customers;
  - (c) Debts owing to the company from its directors, officers and shareholders;
  - (d) Stock in trade;
  - (e) Expenditures made on account of future business;
  - (f) Land, buildings and plant;
  - (g) Goodwill, franchises, patents and copyrights, trademarks, leases, contracts and licenses;
  - (h) Debts owing by the company secured by mortgage or other lien upon the property of the company;
  - (i) Debts owing by the company but not secured;
  - \* (k) Amount received on common shares;
  - (l) Amount received on preferred shares;
  - (m) Indirect and contingent liabilities.

\*No entry for (j) is given in the Act.

federal government retained control over foreign affairs, trade and commerce, currency, criminal law, indirect taxation, postal services, federal company charters, banking, railways, and navigation, as well as residual authority in matters not specifically allocated to the provinces. Mulvey acknowledged, in explanation of the background to the 1907 Act, that though "the courts were always under the influence of the English decisions . . . , Legislatures obtained their inspiration from the United States"—especially with regard to the chartering of companies by letters patent as opposed to the English method of registration and memoranda of association.<sup>5</sup>

The assignment of authority was such as to give rise to federal-provincial jurisdictional disputes, particularly, for our purposes, in matters relating to the chartering of companies and professional societies. The jurisdiction in which companies incorporated was of great concern to politicians and legislators, who were mindful lest they drive away corporate control from their domains.<sup>6</sup> Ontario's progressive interest in corporate regulation was constantly tempered by the considerable lag in time of comparable federal legislation.<sup>7</sup> Though incorporation fees for the Ontario and federal jurisdictions were kept competitively comparable,<sup>8</sup> government-required filing of Annual Returns (available to the public) relating to shareholders and directors, and their past and present addresses, callings and shareholdings, were initially much more onerous in Ontario.<sup>9</sup> By 1900 the Extra Provincial Corporation Act of Ontario required federally incorporated companies to comply with the Annual Return filing of the Ontario Companies Act.<sup>10</sup> Similarly, in the 1907 Act, Ontario attempted to make its mandatory prospectus provisions apply to all companies doing business in Ontario, whether incorporated there or not.<sup>11</sup> Some companies with purely local interests engaged in the "charter ploy" which meant that they would try to incorporate federally and avoid the harassment of uncooperative provincial legislatures.<sup>12</sup> Federal-provincial disputes over incorporation remained matters of continuing conflict in the first two decades of the century.<sup>13</sup>

Incorporation disputes spilled over into the accounting profession. Provincial incorporation of the ICAO in 1883 had granted what was felt to be exclusive right to the designation "Chartered Accountant."<sup>14</sup> However, members of the Dominion Association of Chartered Accountants (DACA), which had been federally incorporated in 1902,<sup>15</sup> began to use the same name. The cause of the ICAO was taken up by the Ontario legislature, ever willing to support provincial claims; but intended provincial legislation was

“disallowed” by the federal powers.<sup>16</sup> It was not until 1909, after much legislative and professional jurisdictional wrangling, that membership in the DACA was restricted to, and became automatic for, members of provincial institutes of chartered accountants. An additional irritant to the Province of Ontario and the ICAO, during this period was the claim by English chartered accountants that colonial legislation (in regard to designation) could not apply to their members practising in Canada.<sup>17</sup>

The political and economic environment in Ontario prior to and at the turn of the century was both supportive of business and mindful of the social obligations that business must accept. The Ontario government has been characterized as one in which “the language of business, the methods of business, the concerns of business for economy and expertise were reflected in [its] policies. . . .”<sup>18</sup> This spirit coexisted with a host of mandatory public financial statement disclosure requirements for such regulated enterprises of public interest as utilities, municipalities, railroads, savings and loan associations and insurance companies.<sup>19</sup> In the latter part of this period, the Conservative government under the leadership of J. P. Whitney, and in the American “progressive” tradition, “reflected a recognition of the rise in the province of an urban industrial society”—a society in which government intervention and direction were to be expected.<sup>20</sup> The Companies Act of 1907 was accompanied by equally path-breaking legislation relating to mining, workmen’s compensation, health and education, and most notably the formation of the controversial government-owned Hydro Electric Power Commission of Ontario. Business was scarcely in a position effectively to object to such intervention since as Bliss comments

. . . for generations the Canadian Manufacturers’ Association existed primarily to lobby for continued or increased tariff protection. No organization in Canada was so deeply opposed to free enterprise in business than the CMA. Because of its effectiveness in championing state intervention and in demonstrating to other groups how to follow its lead, the CMA did more than any other organization to encourage the development of collectivism in Canada. It was socialism’s best friend in Canadian business.<sup>21</sup>

The amount of public disclosure of financial statements in the late nineteenth and early twentieth centuries was certainly considerable. That disclosure pertained not only to those companies that were by statute required to publish, but also to those com-

panies of a commercial or manufacturing nature that were not. Despite concerns over revelations of reporting ambiguities issuing from the Royal Commission on Insurance,<sup>22</sup> the *Financial Post* in 1907 was able to pronounce that “nearly all the most important companies have adopted a straight-forward policy of publicity of earnings and condition.”<sup>23</sup>

Following, in many instances, counterpart legislation in England, the interventionist hand of government had mandated certain public disclosure of the financial affairs of those companies deemed to be of general public or fiduciary interest. In Ontario by 1877, the operating returns of companies incorporated under the General Road Companies Act were required to be forwarded to the Municipal County Council.<sup>24</sup> Similar provisions required timber hauling companies to forward returns to the Commissioner of Public Works.<sup>25</sup> Gas- and waterwork companies were required to publish operating information and to have a statement of debts and liabilities available for inspection by shareholders and creditors.<sup>26</sup> Municipal institutions were required to appoint auditors, to have an abstract of receipts, expenses, assets, and liabilities open for inspection and published, and to file “a true account of all debts and liabilities to the Treasurer of Ontario” if there were outstanding loans.<sup>27</sup> Building societies were required to provide a “full and clear” statement of assets and liabilities to the Provincial Treasurer—abstracts of which were to be published by the latter.<sup>28</sup> Railways were required to forward “a true, exact and particular account of the money collected and received” to the Provincial Secretary<sup>29</sup> and insurance companies were required to provide a balance sheet and income statement in prescribed detail to the Provincial Treasurer.<sup>30</sup> Earlier, in 1873, mutual fire insurance companies were required to forward, under prescribed categories, detailed balance sheets and income statements to the Provincial Secretary and Registrar, a synopsis of which was to be published in the Ontario Gazette.<sup>31</sup> In 1892, insurance companies were required to have auditors<sup>32</sup> and by 1896 street railway<sup>33</sup> and electric railway<sup>34</sup> companies were obliged to forward detailed financial statements to the Provincial Secretary. Comparable counterpart legislation existed at the federal level for banks,<sup>35</sup> insurance<sup>36</sup> and railway companies.<sup>37</sup>

General practice among such regulated companies well before the turn of the century, was to publish or to have represented, their financial statements in such publications as *The Monetary Times* and *The Globe*. By the turn of the century, prospectuses were commonly published in such media<sup>38</sup> and easy access to the affairs of many of the nonregulated commercial and manufacturing enter-

prizes representing the bulk of such listings on the Toronto Stock Exchange was obtainable through annual anthologies of financial statements.<sup>39</sup> The publication of these anthologies was undertaken very likely with the support and sponsorship of the Toronto Stock Exchange, though early Exchange listing regulations of 1905 and 1912 required that “a full statement of the affairs of the company” be provided *only* at the time of the listing application.<sup>40</sup> Quite clearly a strong tradition for financial statement disclosure was in existence at the time of the 1907 Ontario Act

### *The Institute of Chartered Accountants of Ontario (ICAO)*

The fact that the financial statement requirements of the 1907 Act were virtually written by the ICAO<sup>41</sup> is not surprising in light of that organization’s tradition of spirited and informed membership. First organized in 1879,<sup>42</sup> the Institute’s subsequent incorporating legislation of 1883 granted it a charter “as an intellectual and educational movement to raise the standard of accountancy” and required “the promotion . . . of knowledge, skill and proficiency of members of the Institute . . . and to these ends the establishment of classes, lectures and examinations and the prescription of such tests of competency, fitness and moral character. . . .”<sup>43</sup> It is likely that the Institute’s remarkable vigor, prominence and authority were engendered by the organizational activity necessary to fulfill that educational mandate. Within ten to fifteen years of inception,<sup>44</sup> the Institute had established a tradition for regular meetings during the year, to which the public was invited and at which papers relating to accounting matters were delivered. In commenting on this tradition, the President of the ICAO acknowledged the importance of keeping the Institute before the eyes of the public and raising the standards of the profession.<sup>45</sup> Regulations were devised categorizing the various divisions of competency that were recognized, and periodic examinations were set to determine that competency. The highest level, “Fellowship,” required a thesis to be prepared—the presentation of which became a tradition at one of the regular meetings.<sup>46</sup> By 1893, virtually all founding members had submitted to qualification of competency by examination.<sup>47</sup> The notice for the sitting of exams, questions and answers to exams, the proceedings of the annual meetings and the accounting papers delivered at regular meetings were commonly reported on, often at great length, in the financial press.<sup>48</sup> As early as 1893, the Institute sought out and accredited various colleges and schools that were able to provide sufficient accounting education to stu-



dents to qualify for the introductory level of competency.<sup>49</sup> Year-book publication began in 1896. Papers delivered at meetings were being published in professional journals;<sup>50</sup> reprints of the papers were frequently distributed among Ontario businessmen; and several attempts to begin a regular journal were discussed.<sup>51</sup> Efforts to establish a formal Institute library were finally successful in 1903.<sup>52</sup> Prior to that time, Institute committees regularly urged the Toronto Public Library to carry a wide range of accounting related books. The influence and concerns of the ICAO extended throughout Canada as it sought to initiate uniform examinations and standards for emerging Chartered Accountants Institutes in Manitoba and Nova Scotia.<sup>53</sup> A student society formed by the Institute<sup>54</sup> intensified the concern for lectures and the publication<sup>55</sup> of textbooks and examinations. An impressive list of texts authored by Institute members developed including

*Canadian Accountant* by S. G. Beatty and J. W. Johnson, 9th ed., 1892.

*Canadian Standard Bookkeeping* by J. W. Westervelt, 3rd ed., 1904.

*Joint Stock Company Accounts* by D. Hoskins, 3rd ed., 1907.

*Joint Stock Company Bookkeeping* by J. W. Johnson, 7th ed., 1884.

*Municipal Accounting* by F. H. Macpherson (exact dating not established).

*Factory Cost Accounts* by W. C. Eddis and W. B. Tindall, 3rd ed., 1904.

*Manual for Accountants* by W. C. Eddis, 1899.

*Primary Accounting Manual* by D. Hoskins (exact dating not established).

*Expert Bookkeeping* by C. A. Fleming, 1892.

*Bookkeeping for Joint Stock Companies* by D. Hoskins, 1901.

The Eddis and Tindall text has been singled out by Garner as being influential on American practice by dismissing "as being entirely inadequate the nonintegrated cost systems which had been advocated so strenuously by the English."<sup>56</sup> It is noteworthy that all of these authors except Fleming either attended, or sent letters to, the meeting at which the Institute presented its financial statement recommendations for the Ontario legislation. Quite clearly, Institute membership was sufficiently interested and independently well-informed to be able to advise provincial legislators on matters of financial statement disclosure. No reference

exists in the minutes indicating knowledge or influence of the optional model financial statements of the 1862 English Companies Act.

The Institute's relations with the government were highly visible from the beginning. President Harmon, under whom incorporation was sought in 1883, was a former mayor and treasurer of the city of Toronto. Vice president Mason held similar offices in Hamilton and was related by marriage to J. M. Gibson, a subsequent Provincial Secretary and Lieutenant Governor of Ontario. The large public meeting of the Institute which preceded the petition for incorporation was held in the offices of the city of Toronto. The interaction with government was not only of a self-serving nature in which the Institute, usually unsuccessfully, sought a monopoly for its services in particular areas of legislative concern, but also of a broader professional nature. Recommendations were forwarded to the Provincial Secretary<sup>57</sup> relating to municipal accounting in 1888, to the federal Finance Minister<sup>58</sup> relating to the duties, certificate, and qualifications of bank auditors in 1890, and to the Secretary of State<sup>59</sup> relating to the Dominion Companies Act of 1902. A Legislative committee of the Institute Council was formed in 1895. Deputations to the Provincial Cabinet with regard to qualifications of auditors doing municipal work successfully obtained mention in the legislation of institute members' qualifications.<sup>60</sup> Meetings at the federal level with the Minister of Finance in 1897 were concerned with the formation of an inter-provincial Dominion accounting association and with uniformity in the handling of bankruptcies.<sup>61</sup> Institute standards (through their qualifying examinations) were recommended for all public accountants by the financial press.<sup>62</sup> In the face of the federal government's incorporation of the Dominion Association of Chartered Accountants, the provincial government's jurisdictional concerns were also served as it responded positively to the Institute's lobby to restrict the C.A. (chartered accountant) designation to members of the ICAO.<sup>63</sup> The appointment of an American auditor to perform some investigatory work for the Provincial government invited an enormous amount of Institute-organized resistance and embarrassing publicity for the Government in the press.<sup>64</sup>

The first draft bill leading to the 1907 legislation included the ICAO recommendations which had been made almost a year previous at the specific request of the Provincial Secretary.<sup>65</sup> The latter, together with his Assistant, attended a special Institute meeting to hear members' comments on the legislation.<sup>66</sup> The Provincial Secretary, his Assistant and the former Provincial Secretary

were all awarded honorary Fellowships in the Institute, as was the editor of Canada's leading financial newspaper *The Monetary Times*.

The chief source of strength in the ICAO at the turn of the century was certainly Canadian in its origin. The guiding spirit in the Institute at this time was George Edwards, whose father was an Ontario government civil servant. The Institute was always mindful of the somewhat more lengthy traditions of public accounting in England and of the English legislation relating to matters of accounting and auditing, but the Institute minutes betray little "mother-country" influence beyond that. English Chartered Accountants could become members of the ICAO upon application (a privilege that was reciprocated!) but they came to Canada as individuals, not as members of English accounting firms who would set up international branches. The split between native and English influence that Merino indicates existed in America up to 1905,<sup>67</sup> seemed to have no counterpart in the ICAO's history.

In America, the Report of the Industrial Commission had held back from recommending mandatory company audits because of a concern for the ability of the public accounting profession to respond.<sup>68</sup> No such reservations were entertained in the considerations leading up to the mandatory audit provisions of the 1907 Ontario Act. Nor were Institute members unassuming in their feelings of prominence. In 1902, the President proclaimed the ICAO as being "the leading and recognized head of the accounting profession on the continent."<sup>69</sup> In 1907, after returning from meetings of the American Association of Public Accountants, the President with similar modesty stated at the annual general meeting that he was "pleased to report in point of excellence of work and results the Ontario Institute is certainly far in advance of any of the State Associations."<sup>70</sup> Edwards proclaimed, in *The Monetary Times*, that the Ontario Institute's standards . . . were higher than those of any other in Canada or the United States.<sup>71</sup> It may be observed that from 1894 to 1910, Institute membership grew from 78 to 130.

#### *Background to the 1907 Act and the Efforts of the Office of the Provincial Secretary*

Prior to the 1907 legislation in Ontario, the public's legal right to information about the financial affairs of commercial and manufacturing companies was limited to access to the company Annual Returns that were required to be filed with the Provincial Secretary and which contained summary information about the capital

stock and detailed information concerning the names, addresses, occupation, and shareholdings of each shareholder and director. The books of the company filing such information were also open for the inspection of creditors and shareholders. Court-approved inspections and optional audit requirements accompanied these provisions, together with the requirement for directors to present an income and expenditure statement at the annual general meeting. The foregoing procedures were embodied in the 1897 Ontario Companies Act. By 1907 however, the legislative emphasis had shifted markedly from providing information about the capital stock, directors, and shareholders, to furnishing investors with a prospectus, and shareholders with audited, detailed information about the results of the directors' handling of the company's operations. An investor point of view inspired much of the legislation. The creation of "private companies" was the device which legislators used to allow small, closely-held corporations to avoid filing a prospectus.

The office of the Provincial Secretary was an active source of proposals for legislative control over corporations. The 1897 Ontario Companies Act was preceded by an intensive investigation of the corporate legislation of other countries and of several American States.<sup>72</sup> The office was therefore aware of the extremely progressive draft legislation of the state of Victoria in Australia and of the English Davey Committee Report.<sup>73</sup> The first reading of the Bill<sup>74</sup> preliminary to the 1897 legislation contained the mandatory provisions for audit and detailed financial statements to shareholders in the optional form prescribed by Table A of the First Schedule of the 1862 English Companies Act (Figure 2 shows the form of Balance Sheet); however concern lest such provisions prove too onerous for small companies prompted withdrawal of these provisions.<sup>75</sup> Only the requirement to supply an income and expenditure statement to the annual meeting remained in the Act.

An employee of the office of the Provincial Secretary, J. D. Warde, was the author through at least seven editions (1884-1907) of *The Shareholders' and Directors' Manual*. This text,<sup>76</sup> dedicated to the Provincial Secretary and acknowledging the helpful reviews of the Assistant Provincial Secretary, Thomas Mulvey, and one of the most prominent ICAO members, George Edwards, recommended full disclosure in matters of financial statement presentation and put forward as a model of disclosure the balance sheet prescribed by Table A. Legislators' comments at the federal level in support of an unsuccessful 1894 Companies Bill incorporating broad disclosure provisions argued for the public right to greater

Figure 2

Balance Sheet Optional Requirements of Table A of the First Schedule of the English Companies Act of 1862.

C.89. 25° & 26° VICTORIÆ. A.D.1862.

BALANCE SHEET of the		18		Cr.	
CAPITAL AND LIABILITIES.		Co. made up to		PROPERTY AND ASSETS.	
Dr.	£ s. d.	£ s. d.	Cr.	£ s. d.	£ s. d.
I. CAPITAL AND LIABILITIES OF THE COMPANY.					
1. The Number of Shares.					
2. The Amount paid up, the Nature of the Arrear, and the Names of the Defalcators.					
3. The Particulars of any forfeited Shares.					
4. Showing: The Amount of Loans on Mortgages					
5. The Amount of Debts, owing by the Company, for which acceptances have been given.					
6. (a) Debts for which acceptances have been given for Supplies of Stock in Trade or other Articles.					
(b) Debts to Tradesmen for Supplies of Stock in Trade or other Articles.					
(c) Debts for Law Expenses.					
(d) Debts for Interest on Debentures or other Loans.					
(e) Unclaimed Dividends.					
(f) Debts not enumerated above.					
VI. RESERVE FUND.					
VII. PROFIT AND LOSS.					
VIII. CONTINGENT LIABILITIES.					
Showing: The Amount set aside from Profits to meet Contingencies.					
Showing: The disposable Balance for Payment of Dividend, &c.					
Claims against the Company not acknowledged as Debts. Monies for which the Company is contingently liable.					
III. DEBTS OWING BY THE COMPANY.					
7. Showing: Immovable Property, distinguishing— (a) Freehold Land, (b) Leases, (c) Leasehold Buildings.					
8. Movable Property, distinguishing— (a) Stock in Trade, (b) Plant, (c) The Cost to be stated with Deductions for Depreciation in Value as charged to the Reserve Fund or Profits and Loss.					
9. Debts considered good for which the Company hold Bills or other Securities.					
10. Debts considered good for which the Company hold no Security.					
11. Debts considered doubtful and bad. Any Debt due from a Director or other Officer of the Company to be separately stated.					
V. CARE AND INVESTMENTS.					
12. Showing: The Nature of Investment and Rate of Interest.					
13. The Amount of Cash, where lodged, and bearing Interest.					

Companies, &c. (First Schedule.)

knowledge of the financial affairs of large commercial and manufacturing endeavors.<sup>77</sup>

The appointment of T. Mulvey as Assistant Provincial Secretary in 1904 was followed by the election of J. P. Whitney's Conservative government and appointment of W. J. Hanna as Provincial Secretary. Hanna, a prominent businessman, and particularly Mulvey, the scholarly and progressive minded civil servant, were the moving forces behind the 1907 Act. Under their directions, draft legislation was circulated to many interested parties in 1906 and 1907, and many hearings and much correspondence with the office of the Provincial Secretary preceded enactment in 1907. Possibly because of the carefully orchestrated, widespread discussion of the legislation, the bulk of the evidence in the files of the Provincial Secretary in the Ontario Archives is generally supportive.

The moving spirit behind the legislation was largely Mulvey, whose concern for greater information for the investing public oftentimes ran counter to the prevailing business sentiments for corporate secrecy at a time when the promotion of stock without prospectus information was not uncommon. Mulvey was particularly concerned with stock promotion abuses and his main attention and enthusiasm in the legislation centered on the mandatory prospectus requirements and on the stock allotment provisions that would inhibit the prevalent practice of stock watering. The bulk of the correspondence in the Provincial Secretary's files was similarly directed. The financial statement disclosure requirements, while fitting in with Mulvey's general theme for the provision of increased information, were not the thrust of the legislation and it may well be that these annual reporting requirements (because of their complementary nature) rode along on the coattails of the provisions directed at stock promotion abuse.<sup>78</sup>

With regard to mandatory prospectuses, Mulvey stated "we have no desire to drive people away from incorporating under our Act, but it is far better to let scalliwags go elsewhere than to allow them to do as they please under the Ontario laws."<sup>79</sup> Though a marginal note on an internal copy of draft legislation in the files of the Provincial Secretary<sup>80</sup> indicated that some American States had equivalent financial statement disclosure requirements, no specific references to such legislation were otherwise available nor could any other reference to American influence be found in the files of the Provincial Secretary, in the voluminous public writings of Mulvey or in the financial press. (Horack,<sup>81</sup> Kuhn,<sup>82</sup> and Sterrett<sup>83</sup> all emphasize the ineffectiveness of whatever little American annual reporting requirements were then extant.) The legislative

mould was the Companies Acts of England, but Mulvey improved on them most notably by ensuring that companies could not avoid the prospectus provisions and by requiring an income and expenditure statement and a detailed balance sheet. For the financial statement disclosure requirements, he accepted without change the recommendations of the ICAO. The Act itself was consistent with the legislative pattern of the progressive-minded Whitney government.

### *The Impact of the Legislation*

Some tentative comments are possible with regard to the effect on corporate reporting practices of this legislation in 1907. The *Annual Financial Review—Canadian* requested corporations to forward information on their financial affairs for publication in its annual anthology. The vast majority of those commercial and manufacturing companies whose stocks were listed on the Toronto Stock Exchange forwarded their financial statements and/or information from the Annual Returns required by the Provincial Secretary or the federal Secretary of State.<sup>84</sup> Of companies in the anthology incorporated in Ontario, only one of five in 1905 did not provide financial statements and by 1910 all twenty-one were doing so. Of federal or other-province companies, where mandatory provision of financial statements to shareholders did not exist, nine of seventeen did not provide financial statements in 1905 and by 1910, only seven of thirty-four were not doing so. A subjective review by the author of the amount of information disclosed in the commercial and manufacturing financial statements indicated only a marginal improvement in 1910 statements over those of 1905. In both years these statements, while in some instances aggregating accounts that were required to be distinguished, usually contained more information than the 1907 legislation required.

The legislation—though little concern is apparent in the files of the Provincial Secretary!—also covered mining companies. Evidence with regard to the impact on disclosure of these financial statements is more forceful in demonstrating the impact of the legislation. In 1906 immediately prior to the 1907 legislation, seventeen of twenty-eight companies listed in the *Annual Financial Review—Canadian* did not disclose their financial statements; in 1908 all but four of thirty-five disclosed. Related provincial mining company legislation is somewhat perplexing. The Supplementary Revenue Act<sup>85</sup> of 1907 required that mining companies pay a 3% tax on income in excess of \$10,000. However neither this statute nor the later consolidation statute of 1914, though they pain-

stakingly set forth the expenses which were to be regarded as valid deductions in arriving at taxable income, made any reference to the required minimum and audited format of the 1907 companies act legislation—format which it would seem would have been complementary to the purposes of the revenue act.

The number of firms voluntarily disclosing at the provincial level prior to 1907 and at the federal level prior to 1910 was considerable. The example of mandatory disclosure of regulated corporations (England had much the same required disclosure for regulated firms), the concern for financing from the investing public, the likely encouragement of the Toronto Stock Exchange and the moral suasion certainly of the office of the Provincial Secretary and possibly of some of the members of the ICAO may in varying degrees have been influential.<sup>86</sup> No provisions existed at the federal or provincial level for the imposition of income taxes prior to 1907. The infrequent requirement to pay income taxes at the municipal level prior to 1907 likely did not occasion the filing of financial statements which would have been available to the public.<sup>87</sup>

The response in the financial press to the financial statement provisions of the 1907 legislation was not unexpectedly silent, since the legislation had been openly discussed for the previous one and one-half years. The legislation was not attributed to any grand corporate scandals proceeding from financial statement inadequacies; and the tradition for legislated mandatory disclosure in the many regulated areas of enterprise together with voluntary disclosure by nonregulated companies, may have made the absence of such legislation for commercial and manufacturing firms appear anachronistic.

The Ontario legislation served as a model for other provinces. The federal government itself in 1917 enacted identical disclosure legislation and acknowledged its debt to Ontario in this regard.<sup>88</sup> In 1909 Mulvey became the Under Secretary of State of the federal government and once again (possibly with support from George Edwards, who had been brought to Ottawa by the federal government during World War I) was the initiating spirit in the office of the Secretary of State for this legislation at that level.<sup>89</sup> In the first two decades of the century, governments and bureaucracies were sufficiently small or nonlabyrinthine that the strong leadership of an individual could make a difference.

### *Concluding Comments*

The 1907 Ontario legislation is significant in the evolution of corporate disclosure because it is one of the earliest statutes in



the English-speaking world to make detailed financial statements mandatory for commercial and manufacturing companies, and also because it is one of the earliest occasions on which an accounting organization has demonstrated its influence on disclosure legislation. The varied and complementary circumstances under which these financial statement provisions took place are instructive.

Prior to the legislation, voluntary disclosure of such information for these companies had been regarded as uniformly good. Similarly, there existed a long-standing legislative tradition for required disclosure among those regulated enterprises having a public or fiduciary interest. The general demand for change was therefore directed towards the various needs which a mandatory prospectus would satisfy. Required financial statement disclosure rode along on the coattails of the rationalizing of numerous incorporating statutes, of the concern for stock promotional abuse and of the general movement to greater societal control of corporate operations. It was the concern for the investing public that particularly informed the mind of the chief government proponent of the legislation, Thomas Mulvey. The Act, in total, was consistent with the reforming spirit of the Whitney government.

Though Mulvey copied much of the prospectus legislation from England, for financial statement disclosure purposes he bypassed the recommendations of the Davey Committee and the provisions of the English Companies Act of 1900 and sought out the aid of the well regarded and highly visible ICAO. The Institute, with its lengthy record of competence engendered by a mandated, onerous, and well publicized involvement in education, was sufficiently confident in its own abilities to propose disclosure unique to legislation at that time. The record of achievement of the ICAO for the period from 1880 to the legislation of 1907 invites comparison with other accounting institutes for those years.

#### FOOTNOTES

<sup>1</sup>Ontario, Statutes, (1907).

<sup>2</sup>Mulvey, (1907), pp. 81-82; and Ontario Archives, correspondence of T. Mulvey with G. Staunton, February 20, 1907.

<sup>3</sup>Ontario, Statutes, (1907), Secs. 97, 123 and 36 respectively. The mandatory audit provisions followed the English Act of 1900, but the Ontario requirements for an income statement and a detailed balance sheet predated English concern by a full three and two decades respectively.

<sup>4</sup>Ontario, Statutes, (1897), Sec. 75.

<sup>5</sup>Mulvey, (1918), p. 129.

<sup>6</sup>Ontario Archives, correspondence of T. Mulvey with G. Staunton, February 20, 1907.

<sup>7</sup>Federal legislation equivalent to the Ontario Act of 1907 followed only a full decade later in 1917.

<sup>8</sup>Canada, Canada Gazette, (June 21, 1902); and Ontario Sessional Paper No. 33.

<sup>9</sup>MacInnes, (1900), p. 4.

<sup>10</sup>Ontario, Statutes, (1900), Sec. 12.

<sup>11</sup>Ontario, Statutes, (1907), Sec. 95(2).

<sup>12</sup>Armstrong and Nelles, (1973), p. 164.

<sup>13</sup>Mulvey, (1918), pp. 124-39.

<sup>14</sup>Ontario, Statutes, (1883), Sec. 2.

<sup>15</sup>Canada, Statutes, (1902).

<sup>16</sup>ICAO, Minutes, (February 15, 1902, July 19, 1907, Dec. 27, 1907, and Minutes of Annual General Meeting July 18, 1908).

<sup>17</sup>Edwards, (1910), p. 283.

<sup>18</sup>Brown and Cook, (1974), p. 86.

<sup>19</sup>See references to statutes following.

<sup>20</sup>Humphries, (1966), pp. 500. A certain government hostility to corporate abuses and power was also evident: see Humphries, (1966), p. 272 and Bliss, (1982), p. 5.

<sup>21</sup>Bliss, (1980), p. 130.

<sup>22</sup>Canada, Royal Commission on Life Insurance, (1907).

<sup>23</sup>*The Financial Post*, (February 16, 1907), p. 1.

<sup>24</sup>Ontario, Statutes, (1877), ch. 152, sec. 146.

<sup>25</sup>Ontario, Statutes, (1877), ch. 153, sec. 27.

<sup>26</sup>Ontario, Statutes, (1877), ch. 157, secs. 22, 32 and 33.

<sup>27</sup>Ontario, Statutes, (1877), ch. 174, secs. 254-257 and 363.

<sup>28</sup>Ontario, Statutes, (1877), ch. 164, secs. 67-68.

<sup>29</sup>Ontario, Statutes, (1877), ch. 155, secs. 26, 36.

<sup>30</sup>Ontario, Statutes, (1877), ch. 160, secs. 26-27 and Schedule B.

<sup>31</sup>Ontario, Statutes, (1873), ch. 44, sec. 72.

<sup>32</sup>Ontario, Statutes, (1892), ch. 39, sec. 29.

<sup>33</sup>Ontario, Statutes, (1896), ch. 50, sec. 16.

<sup>34</sup>Ontario, Statutes, (1895), ch. 38, Schedule C.

<sup>35</sup>Canada, Statutes, (1886), ch. 120, secs. 24, 66 and Schedule B.

<sup>36</sup>Canada, Statutes, (1886), ch. 45, sec. 19 and Form A.

<sup>37</sup>Canada, Statutes, (1888), ch. 29, sec. 299 and Schedule One.

<sup>38</sup>See for example *The Monetary Times* (January 11, 1901), pp. 898-900 and (February 22, 1901), p. 1108.

<sup>39</sup>See various issues of *The Annual Financial Review—Canadian* from 1901 to 1941..

<sup>40</sup>Toronto Stock Exchange Bylaws, Rule 26 of 1905 and 1912. A long time employee of the Exchange, L. Lowe confirmed in conversation with the author the close and complementary relationship between the Exchange and the publisher W. R. Houston and supported the implication that the Exchange had no specific regulation with regard to the disclosure of annual financial statements at the turn of the century. Houston maintained his offices with one of the member firms of the Exchange and subsequently in the Exchange building itself; for much of the 1920s and 1930s, he was the Assistant Secretary of the Exchange.

<sup>41</sup>ICAO, Minutes, Figure 1 is almost identical with the recommendations of February 8, 1906.

<sup>42</sup>ICAO, Minutes, (November 11, 1879).

<sup>43</sup>Statutes, Ontario, (1883), Preamble and Sec. 2.

<sup>44</sup>ICAO, Minutes (1885-1900). See also Edwards (1909), pp. 1984 and 2038.

<sup>45</sup>ICAO, Minutes, (July 19, 1901).

<sup>46</sup>ICAO, Minutes, April 1894. (Exact date not given.)

<sup>47</sup>Edwards, (1915), p. 336.

<sup>48</sup>For example ICAO, Minutes (March 22, 1881; November 4, 1885; November 25, 1886; April 19, 1888).

<sup>49</sup>ICAO, Minutes, March 20, 1893 and February 28, 1895. By 1895 affiliation was established with Northern Business College, Upper Canada College and The Ontario Business College.

<sup>50</sup>See four articles by ICAO members A. C. Neff, W. T. Kernahan, and W. C. Eddis in January, February and March issues, 1899, of *Accountics*.

<sup>51</sup>ICAO, Minutes (October 6, 1885, March 21, 1889, June 20, 1893, November 23, 1906, July 19, 1907). Concern expressed for publishing "Questions and Answers" to Institute exams (March 26, 1891).

<sup>52</sup>ICAO, Minutes (October 22, 1885, February 21, 1893, July 17, 1903).

<sup>53</sup>ICAO, Minutes (July 15, 1904).

<sup>54</sup>ICAO, Minutes (January 4, 1900).

<sup>55</sup>ICAO, Minutes (October 4, 1893).

<sup>56</sup>Garner (1954), pp. 266-267.

<sup>57</sup>ICAO, Minutes (April 19, 1888).

<sup>58</sup>ICAO, Minutes (March 21, 1890).

<sup>59</sup>Ontario, Archives RG8 1-1-D, File 3240.

<sup>60</sup>ICAO, Minutes (April 9, 1897).

<sup>61</sup>ICAO, Minutes (March 19, 1897).

<sup>62</sup>*The Monetary Times* (Sept. 14, 1900), p. 841.

<sup>63</sup>Ontario, Statutes (1908), Sec. 13. This Act was disallowed at the federal level.

<sup>64</sup>ICAO, Minutes (April 14, 1905).

<sup>65</sup>ICAO, Minutes (February 8, 1906), and Ontario, Bill 101, Sec. 35.

<sup>66</sup>ICAO, Minutes (January 18, 1907).

<sup>67</sup>Merino (1975), pp. 145-154.

<sup>68</sup>Merino (1975), p. 285.

<sup>69</sup>ICAO, Minutes (July 18, 1902).

<sup>70</sup>ICAO, Minutes (July 19, 1907).

<sup>71</sup>*The Monetary Times* (May 15, 1909), p. 2038.

<sup>72</sup>Ontario, Archives, RG8 1-1-D, Files 1822, 3640-49.

<sup>73</sup>The Victoria legislation was revised in 1910 to bring it into conformity with English law, Gibson (1979), p. 33. Corporate legislation of the province of British Columbia in 1904 mandated a detailed income and expenditure statement and the balance sheet detail of Table A of the First Schedule of the English Companies Act of 1862, but rescinded these requirements in 1910 to conform to the disclosure requirements of the English Companies Act of 1900.

<sup>74</sup>Ontario, Bill 74, Secs. 60-61.

<sup>75</sup>Ontario, Archives, RG8 1-1-D. An internal memo of January 30, 1902 from G. E. Lumsden, the Assistant Provincial Secretary to J. R. Stratton, the Provincial Secretary, indicated that these provisions would "work a hardship" on small or close corporations.

<sup>76</sup>Warde (1900), pp. iii-vi, 262, 339.

<sup>77</sup>Canada, Senate Debates (June 13, 1894), pp. 523-524.

<sup>78</sup>Note that the first draft bill to amend the Companies Act in 1905 pertained only to the prospectus provisions. This Bill was deferred and later incorporated in the 1907 legislation. Ontario, Bill 100 (1905).

<sup>79</sup>Ontario, Archives, RG 8 1-1-D. Letter of Mulvey to G. L. Staunton, February 20, 1907.

<sup>80</sup>Ontario, Archives, RG8 1-1-B-1, Box 3.

<sup>81</sup>Horack (1903), pp. 83-86.

<sup>82</sup>Kuhn (1912), pp. 144-146.

<sup>83</sup>Sterrett (1910), pp. 242-243.

<sup>84</sup>Checked for the years 1900 (11 of 13) and 1905 (17 of 19) to the Exchange listings in *The Monetary Times* and for 1911 (75 of 77) to *The Globe*.

<sup>85</sup>Ontario, Statutes (1907), Sec. 6.

<sup>86</sup>Recent interest in voluntary disclosure provides interesting hypotheses. See Mumford (1982), Watts and Zimmerman (1979), Morris (1979) and Ma and Morris (1981).

<sup>87</sup>An enquiry of the City of Toronto Archives provided correspondence (July 12, 1982) which indicates that in 1905 and 1906 the only taxes exacted by the municipality of Toronto were personal.

<sup>88</sup>Canada, Statutes (1917), Sec. 105, and Mulvey (1920), p. 54.

<sup>89</sup>Mulvey, as the then federal Under Secretary of State, spoke to legislation at the hearings of the Senate Standing Committee on Banking and Finance, July-August, 1917.

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