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George J. Murphy
UNIVERSITY OF SASKATCHEWAN

A CHRONOLOGY OF THE DEVELOPMENT OF CORPORATE FINANCIAL REPORTING IN CANADA: 1850 TO 1983

Abstract: A chronology of significant events in the development of corporate financial reporting standards and practices is presented. The introductory comments to the various sections direct attention to some of the main patterns and trends in that development and provide the framework in which the listing of events is to be interpreted. The particularly significant domestic sources of influence are the legislative and professional activities in Ontario and, in more recent times, the activities of the Canadian Institute of Chartered Accountants. External influences have been—not unexpectedly—the traditions of English Company law and the close professional, institutional and economic relationships with the United States. Some internationally significant developments unique to Canada are indicated.

INTRODUCTION

A few introductory comments to the chronology are useful in suggesting some of the broad themes that characterize the whole of the evolution of corporate financial reporting in Canada and in providing a background or setting to aid interpretation. The chronology itself has four divisions each of which in turn are preceded by interpretive comments.

The evolution of financial reporting in Canada has developed within the framework of both British and American influence. The traditions of English law and, more particularly, the model of using the Companies Acts to improve financial statement reporting practices have provided an ever-present guideline. Prior to the turn of the century, actual legislated reporting requirements followed the English statutes quite closely; since that time, the Canadian requirements have generally been well in advance of those of

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England. Since the 1920s and 1930s, Canadian reporting practices and standards have been much more significantly influenced by the United States. That influence has been felt through the importance, proximity and articulateness of the American accounting profession, the edicts of the Securities and Exchange Commission (SEC), the American parent-Canadian subsidiary relationships of many corporations, and the close ties amongst international public accounting firms.

Though Britain and the United States have been very important in this evolution, Canada has not been dominated by their influence. Indeed the virtually unrestricted government delegation of standard setting authority to the profession (i.e. to the Canadian Institute of Chartered Accountants (CICA)) sets Canada apart and speaks to the uniqueness and significance of the Canadian development. Of major importance in the tradition of this development was the early organization and leadership of the Institute of Chartered Accountants of Ontario (ICAO), the vigor and interest of the Office of the Provincial Secretary of Ontario, the untarnished prominence and strength of the CICA and the Canadian good fortune in having few corporate scandals—relative to the United States and Britain—that redounded to any enduring discredit of the accounting profession. Indeed, in light of this background this unrequested delegation of authority to the profession was not unpredictable.

As the chronology demonstrates, a great deal of required disclosure existed in the last third of the nineteenth century for such “regulated” enterprises as banks, insurance and savings companies, and railway and municipal corporations. Generally, however, it was not until the turn of the century that the various incorporating jurisdictions began to place exacting reporting demands on commercial, industrial and mining corporations. Most of these latter companies have sought federal rather than provincial incorporation from the earliest decades of the century and have therefore been subject to that jurisdiction’s reporting requirements. In significant ways, however, for much of this century, and by virtue of the concentration of financial and industrial power in Ontario, and the leadership of the ICAO, Ontario has been in the vanguard of financial reporting improvements in matters relating to corporate legislation. For example, the financial statement disclosure requirements of the federal legislation of 1917 and 1964/65 were, respectively, virtual copies of the 1907 and 1953 Ontario Statutes. In turn, the Ontario legislation had followed directly from ICAO recommendations. 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 in which an accounting organization has demonstrated its influence on disclosure legislation. Though, at the provincial level, the Association of Accountants in Montreal was the first accounting association organized in Canada or the United States, much of its energy in early times was devoted towards sorting out severe anglophone-francophone and Montreal-nonMontreal differences, rather than making improvements in financial reporting.

The overriding criteria for inclusion of events in the chronology is whether such events form part of (and support) the three major themes running through the evolution of Canadian financial reporting: firstly, the tradition over the whole period, of working for change within the framework of provincial and federal corporation laws; secondly, the recognition of the dominant influence of the ICAO and more recently the CICA in setting directly or indirectly the standards for corporate reporting practices; and thirdly, the acknowledgement, largely owing to public awareness, of serious concerns in the 1960s, that uniformity and consistency in reporting practices would be aided by the delegation of standard setting to the CICA. An integral part of the chronicle includes concern for the institutions around and within which corporate financial reporting has developed and the professional and academic writing which has influenced that development. Each of the CICA accounting and auditing Recommendations commencing in 1946 is listed in order to provide the record of standards that have been promulgated over the years and to provide a basis for international comparison. Those CICA Research Studies that have been most frequently cited or that have been the basis for standards are also included.

The chronology is usefully divided into the following periods and is preceded by interpretive comments:

Early public accountability and organization	1850 - 1885
Professional emergence	1885 - 1920
Consolidation of characteristic features	1920 - 1960
Delegation of standard setting	1960 - 1983

Early Public Accountability and Organization: 1850 - 1885

This period is distinguished by the emerging tradition for the widespread disclosure of the financial affairs of such "regulated"

industries as banks, insurance and savings companies, railways and municipal corporations, and undoubtedly, this strong tradition provided an influencing background for the legislated disclosure requirements for general commercial and industrial companies that later took place in the early decades of the twentieth century. The stock exchanges and accounting associations which would later be so influential were formed during this period.

- 1850 The first general Companies Act permitted incorporation by registration with a County Registrar and the Provincial Secretary. The liability of shareholders was "joint and several" until total authorized capital had been paid in (altered in 1864) [Consolidated Statutes, Ch. 28, Sec. 11]. Manufacturing, mining, mechanical and chemical companies required to publish in newspapers a report stating "the amount of stock of the company, the proportion thereof then actually paid in, together with the amount of the existing debt of the company" [Consolidated Statutes, Ch. 28, Sec. 13]. Banks required to forward to the Inspector General "a full and clear statement of assets and liabilities," such statement to be published by the Inspector General "in such a manner as he thinks most conducive to the public good" [Consolidated Statutes, Ch. 21, Sec. 30].
- 1851 Railway companies required to file with the three branches of the Legislature "a detailed and particular account . . . of the moneys received and expended by the company" [Canada, Statutes, Sec. 22].
- 1855 An Act relating to the auditing of the public accounts required establishment of a Board of Audit composed of the Deputy Inspector General, the Commissioner of Customs and an appointed auditor to report on all government departments, banks and institutions funded by public moneys [Canada, Statutes, Secs. 1-6]. Municipalities with loans outstanding to send annually "a true account of all debts and liabilities" to the Board.
- 1864 General incorporation by letters-patent introduced with liability limited to amount payable on shares [Canada, Statutes, Secs. 1, 27 & 28].
- 1866 Municipal institutions of Upper Canada (later Ontario) required to appoint two independent auditors, and to prepare an abstract of receipts, expenditures, assets

- and liabilities to be filed with the Municipal Clerk. Abstract to be open for inspection and published as Municipal Council directs. Municipal clerk to file detailed statement of transactions with Provincial Secretary [Province of Canada, Statutes, Secs., 156, 157 & 169].
- 1868 Life, Fire and Guaranty Insurance companies required to forward annual statement listing assets, liabilities, revenues and expenditures to Minister of Finance. Such statement to be published in the Canada Gazette and to be laid before Parliament. Exemptions provided for certain insurance companies established in the United Kingdom and which were not bound by the laws in force there to furnish or publish statements of its affairs [Canada, Statutes, Secs. 14 & 15].
- 1874 Montreal Stock Exchange incorporated [Quebec, Statutes].
- 1876 Ontario Building Societies Act required appointment of auditors and the forwarding annually of a "full and clear statement of assets and liabilities" to the Provincial Treasurer—the latter to publish "in such a manner as he thinks most conducive to the common good" [Ontario, Statutes, Secs. 18 & 19].
- 1877/
1902 Canada Joint Stock Companies Act required "directors of every company to lay before its shareholders a full and clear printed statement of the affairs and financial position of the company at or before each general meeting" [Canada, Statutes, Sec. 87]. 1902 legislation required general meetings to be held annually [Canada, Statutes, Sec. 88].
- 1878 Toronto Stock Exchange incorporated [Ontario, Statutes]. Legislation established Office of the Auditor General of Canada [Canada, Statutes, Secs. 11-24].
- 1879/80 Organizing meeting of the Association of Accountants in Montreal held 11 June 1879 [Mann, p. 24]. Association incorporated 24 July 1880—the first formal organization of accountants in Canada and the United States [Quebec, Statutes, Ch. 88]. The Association later renamed the Institute of Chartered Accountants of Quebec in 1927 and since 1978, l' Ordre des comptables agréés du Québec [Collard, p. 71].

- 1879/83 Organizing meeting of the Institute of Accountants and Adjusters—later renamed the Institute of Chartered Accountants of Ontario (ICAO)—held November 11, 1879 [ICAO Minutes]. Institute incorporated in 1883. The incorporating statute specified the Institute as “an intellectual and education movement to raise the standard of accountancy” and empowered the Institute to “establish classes, lectures and examinations.” This legislated mandate was very likely the stimulus for the subsequent energy and prominence of the ICAO [Ontario, Statutes].
- 1881 The leading financial journal, *The Monetary Times*, commenced tradition of reporting at length (often verbatim) on such ICAO activities as proceedings of annual meetings, questions and answers to exams, and papers delivered at regular meetings [ICAO Minutes: March 22, 1881; November 4, 1885; November 25, 1886; April 19, 1888].

Professional Emergence: 1885 - 1920

The activities and competence of the ICAO and its membership became very visible during this period through educational programs and examinations, lobbying activities, text book writing and prominence as auditors of most major corporations. Honorary Fellowships in the Institute were awarded to the Provincial Secretary, the Assistant Provincial Secretary, the editor of the *Monetary Times* and to a prominent member of the Ontario legislature later to become the Lieutenant-Governor of the Province. The Office of the Ontario Provincial Secretary, which was in charge of corporate affairs, deferred to the Institute with regard to the pace-setting financial statement disclosure requirements of the provincial corporate legislation of 1907. The most influential personalities in this legislation, George Edwards, an ICAO President and Thomas Mulvey the Assistant Provincial Secretary, later installed equivalent disclosure requirements at the federal level in 1917.

Though there was some concern for financial statement disclosure in such regulated areas as insurance and banking (see 1907 and 1913), the general corporation disclosure requirements at the provincial Ontario level in 1907 and at the federal level in 1917 were more likely prompted by abuse in stock promotion rather than by concern over disclosure deficiencies. Influential in the tradition

for high levels of disclosure were the Toronto Stock Exchange, which encouraged the publishing of annual compilations of all listed corporate financial statements, and the financial press itself.

This period also saw the establishment of the prominence of the ICAO and of the use of the vehicle of the Companies Act to improve corporate reporting practices.

- 1886 Incorporation of the Institute of Chartered Accountants of Manitoba [Manitoba, Statutes]. (Other provincial Institutes of Chartered Accountants organized and incorporated in early part of twentieth century).
- 1888/
90/1902 ICAO commenced tradition of submitting briefs and making representations to legislative bodies—in 1888 to the Provincial Secretary relating to municipal accounting [ICAO Minutes, April 19]; in 1890 to the federal Finance Minister relating to the duties and qualifications of bank auditors [ICAO Minutes, March 21]; and in 1902 to the Secretary of State relating to the Dominion Companies Act [Ontario Archives, RG8 1-1-D File 3240].
- 1892 Ontario Insurance Act required appointment of auditors to furnish statements of assets, liabilities, income and expenditures to members and to Provincial Registrar [Ontario, Statutes, Sec. 29].
- 1892/
1907 Publication of several widely-used Canadian accounting texts, some through several editions: *Expert Book-keeping*, C. A. Fleming [1892]; *Manual for Accountants*, W. C. Eddis [1899]; *Canadian Accountant*, S. C. Beatty and J. W. Johnson [1908]; *Canadian Standard Book-keeping*, J. W. Westervelt, and *Municipal Accounting*, F. H. Macpherson; [as indicated in ICAO Yearbook 1898, p. 20]; *Bookkeeping For Joint Stock Companies*, D. Hoskins [1901]; *Joint Stock Company Accounts*, D. Hoskins [1907].
- 1893 ICAO sought out and accredited various colleges and schools in Ontario to provide introductory level of public accounting competency. Ontario Business College, Belleville; Kingston Business College, Kingston; Northern Business College, Owen Sound; St. Thomas Business College, St. Thomas; Pickering College, Pickering; Upper Canada College, Toronto; and British

- American Business College, Toronto [ICAO Minutes and ICAO Yearbook, 1989, p. 33].
- 1894 Senate Debates emphasized the importance of the public's right to have greater information about the financial affairs of the large commercial and manufacturing firms [Canada, Senate Debates, June 13, pp. 523-524].
- 1894/ J. D. Warde an employee of (and with the support of) the
1907 Ontario Provincial Secretary's Office authored through seven editions *The Shareholders' and Directors' Manual* which recommended full disclosure in financial statement presentation and put forward as a model the balance sheet format prescribed by Table A of the 1862 U.K. Companies Act [Warde].
- 1897 Fellows of the ICAO recognized in provincial legislation as being suitable for municipal audit work [Ontario, Statutes, Ch. 48, Sec. 1].
Companies Act of Province of Ontario required directors to present to annual general meeting a statement of income and expenditure. Inspection provisions on shareholders' request and with approval of courts instituted [Ontario, Statutes, Ch. 28, Sec. 75]. Provisions in draft bill of 1896 relating to mandatory audit and revenue and expenditure statement and balance sheet in form prescribed by Table A of 1862 English Companies Act dropped in 1897 legislation [Ontario, Bills, Sec. 89], because such provisions would be too onerous for smaller firms [Ontario Archives, RG8 1-1-D].
- 1900/ ICAO standards recommended by the *Monetary Times*
02/07 for all public accountants [*Monetary Times*, Sept. 14, 1900, p. 841]. ICAO Presidents proclaimed the Institute to be the "leading and recognized head of the accounting profession on the continent" [ICAO Minutes, July 18, 1902] and after returning from meetings of the American Association of Public Accountants, that the "Ontario Institute is certainly far in advance of any of the State Associations" [ICAO Minutes, July 1907].
- 1900-40 Publication of annual anthology—*The Annual Financial Review, Canadian*—of financial statements of corporations listed on the Toronto Stock Exchange by the long-time Assistant-Secretary of the Exchange, W. R. Houston [1901-1941]. This anthology provided wide-

- spread publicity of corporate financial statements. Though the Exchange likely encouraged such publication, its listing provisions as late as 1970 required only that annual corporate financial statements be disclosed "in customary form" [Toronto Stock Exchange, 1960, By-law 63].
- 1902 Incorporation of the Dominion Association of Chartered Accountants (DACA) [Canada, Statutes, Ch. 58]—later renamed the Canadian Institute of Chartered Accountants (CICA).
- 1904/10 Companies Act of the province of British Columbia 1904, required annual audit and submission to shareholders' meeting of detailed income and expenditure statement and balance sheet. The form and contents for income and balance sheet disclosure identical to the optional clauses of Table A of the 1862 U.K. Companies Act [British Columbia, Statutes]. This detailed financial statement disclosure reduced in the 1910 Act to conform to the 1907 U.K. Act requirement of "a summary of capital, liabilities and assets giving such particulars as will disclose the general nature of those liabilities and assets and how the values of the fixed assets have been arrived at" [British Columbia, Statutes].
- 1904 Appointment of T. Mulvey as Assistant Provincial Secretary in Ontario. Held position until 1909 when he became the Under Secretary of State in the federal government. Influential in promoting the 1907 Ontario and 1917 Canadian Companies Acts and the financial statement disclosure requirements therein.
- 1905 Election of Premier J. P. Whitney's Conservative but "progressive" and reform-minded government in Ontario heralded significant changes in legislation relating to health and education, workmen's compensation, hydro-electric utilities, and mining, commercial and manufacturing companies [Humphries, 1966].
- 1905/12 Toronto Stock Exchange Regulations called for "a full statement of the affairs of the company" upon listing application [Toronto Stock Exchange By-laws, 1905, 1912, Rule 26].
- 1906/07 ICAO under the leadership of George Edwards made recommendations with respect to financial statement disclosure to the Provincial Secretary [ICAO Minutes,

- February 8, 1906]. Provincial Secretary and Assistant Provincial Secretary of Ontario Government attend Institute meeting to solicit and receive comments on draft companies act legislation [ICAO Minutes, January 18, 1907].
- 1906/11 Rash of seven bank failures provokes concern for independent compulsory audits [Bank Audit . . . , 1911, p. 24]. *Journal of Accountancy* acknowledges competence and ability of Canadian profession to undertake such audits [Bank Examinations . . . , 1909, pp. 41-42]. (In the United States in 1902, the Report of the Industrial Commission had indicated "that no independent group of technically qualified professionals was available to perform the necessary audits (of large corporations) [Previts, p. 135].)
- 1907 Royal Commission on Insurance alerted financial community to abuses in accounting practices of Insurance companies [Canada, Royal Commission on Life Insurance]. However, more generally, the *Financial Post* praised Canadian corporate disclosure—"nearly all the most important companies have adopted a straight forward policy of publicity of earnings and condition" [Financial Post, February 16, p. 1].
- Ontario legislation levied 3% tax on mining company income in excess of \$10,000 [Ontario, Statutes, Ch. 9, Sec. 6(1)].
- Companies Act of the Province of Ontario required, for presentation to shareholders at annual general meeting, a revenue and expenditure statement and balance sheet—the latter required the distinguishing of various asset, liability and equity accounts. Mandatory balance sheet (not income statement!) audit and prospectus provisions also legislated. Financial statement disclosure provisions were direct copies of ICAO recommendations and were well in advance of comparable statutes in Britain and the United States. This legislation reflected one of the earliest occasions in which an accounting association was so directly influential [Ontario, Statutes, Ch. 34, Secs. 36, 97, & 123].
- 1908/10 Wave of industrial mergers took place forming the basis of many of the existing large Canadian corporations [Skelton, pp. 259-261].

- 1908/
13/21 The Certified General Accountants' Association founded in Montreal in 1908 and chapter formed in Toronto in 1921; federally incorporated in 1913 [CGA—Quebec, p. 50].
- 1909/10 Jurisdictional disagreements resolved between provincial institutes of Chartered Accountants and Dominion Association of Chartered Accountants with membership in DACA now automatic for, and restricted to, members of provincial institutes [Creighton, pp. 62-65].
- 1911 *The Canadian Chartered Accountant* first published. Name later changed to *CA Magazine* in 1973.
- 1913 Following a series of bank failures, the Bank Act prescribed mandatory balance sheet and income statement audits [Canada, Statutes, Sec. 56].
- 1914/17 Agreement reached that graduates of École des Hautes Études Commerciales de Montréal who had passed a special Licentiate examination would be admitted to membership in the Association of Accountants in Montreal. In 1917, the Association made arrangements to have their students taught in evening courses at McGill University [Collard, pp. 109, 116].
- 1916/17 Canadian legislation initiated taxes on income and business profits [Canada, Statutes, 1916 and 1917]. Depreciation based on historical cost accepted for tax purposes [Breadner, p. 108]. This practice tended to officially recognize what had become accepted accounting practice.
- 1917 The Federal Reserve Board's "Uniform Accounting" was reprinted in *The Canadian Chartered Accountant* and recommended as a guide for Canadian usage [*Uniform Accounting*, July 1917, p. 49].
Model set of financial statements with comments proposed by leading ICAO member, George Edwards, in *Dominion Company Law* by Thomas Mulvey [pp. 54-56], with elaborate emphasis on income statement components of sales, cost of sales, interest, taxes, depreciation and management, selling and general expenses.
- 1917/20 Canadian Companies Act required prospectus, financial statement and auditor provisions similar to those of the 1907 Ontario legislation [Canada, Statutes, 1917, Sec. 105]. Identical financial statement and auditor

provisions introduced in Quebec legislation of 1920 [Quebec, Statutes, Secs. 6024-6024a].

Consolidation of Characteristic Features: 1920 - 1960

The inter-war and post-war years saw the resolution of problems in corporate reporting handled through the now-established traditions of Companies Act legislation and ICAO/CICA leadership. Relatively modest changes in financial statement disclosure requirements accompanied provisions circumscribing the indigenous corporate stock promotion and capitalization abuses of the late 1920s in the Companies Acts legislation of 1934 and 1935. Similarly, growing concerns in the immediate post-war years for improved disclosure led to the introduction of the first CICA standards. The important Ontario disclosure legislation of 1953 was not prompted by any corporate scandals or widespread discontent but simply reflected a raising of former legislated minimums (of 1907) to the new CICA promulgated standards. The 1964-65 federal Companies Act was almost a direct copy of this provincial legislation.

It was during this period that American influence on the setting of Canadian practices began to assume important proportions.¹

- 1920 Queen's University offered program of courses for the ICAO and began long-standing relationship in supplying academic support to the educational goals of the Ontario Institute and the CICA—most notable of which was the Queen's correspondence and lecture note program which many students across Canada used for over four decades [Creighton, pp. 101-112].
- The Canadian Society of Cost Accountants (later the Society of Management Accountants) incorporated by representatives of provincial Institutes of Chartered Accountants [Special Issue, p. 20].
- 1926 Canadian Society of Cost Accountants began monthly journal *Cost and Management*.
- 1926/33 Publication of widely used and long-lived Canadian texts: *Accounting Principles and Practice* by R. G. H. Smalls and C. E. Walker [1926]; and *Auditing* by R. G. H. Smalls [1933].
- 1928/29 Concern raised that amendments to the Companies Act should correct "illegitimate promotions, flagrant stock watering, over-capitalization and misrepresentation" that attend the speculative boom [Mackintosh, p. 407].

- 1929 The Federal Reserve Board's "Verification of Financial Statements" was reprinted in *The Canadian Chartered Accountant* and recommended as a standard for good reporting [Clapperton p. 10].
- 1929/30 The Royal Mail Steam Packet Case in Britain which was concerned with the undisclosed use of secret reserves to bolster current profits was followed avidly in professional and financial journals in Canada. Canadian legislation of 1934 was said to have contemplated the prevention of such an occurrence [Smails, Students' Department, 1934, p. 283].
- 1931/33 Professor R. G. H. Smails [1931, pp. 101-103] and a study group of Queen's University professors called for improved financial statement disclosure relating particularly to the need for greater detail in the income statement and the need to provide the basis of asset valuations. [Members of Department . . . Queens, pp. 274-77].
- 1931/34 CICA commenced tradition of submitting briefs and making representations to legislating bodies—in 1931 a proposal for uniform legislation relating to financial statements [Editorial Comment 1934, p. 73] and in 1934 and 1935, briefs respecting the anticipated Companies Act revisions [General Notes, 1934, p. 327; Dominion Year Book, 1935-36, p. 234]. CICA claimed to be influential in securing increased financial statement disclosure requirements in Statutes of the provinces of Saskatchewan in 1933 and Manitoba in 1932 [Dominion Year Book, 1934-35, p. 222].
- 1932/34 Conference of Commissioners on Uniformity of Legislation recommended increased and uniform financial statement disclosure amongst all incorporating jurisdictions. The draft legislation of the Commissioners provided the immediate stimulus for the 1934 Companies Act legislation [Canada, Senate Debates, 1934, p. 452].
- 1933 The financial press regularly listed shortcomings in disclosure in financial statements [*Financial Post*, January 21, p. 11; June 24, p. 12; December 16, p. 11; May 6, p. 11].
Members of the Department of Political and Economic Science at Queen's University concerned with abuses

- in corporate promotion and capitalization relating to the failure of prospectus provisions, allocation of proceeds of no par value shares, transfers of capital surplus to distributable surplus and lack of information regarding the proceeds from an underwriter [Members of Department . . . , pp. 274-277]. The financial press also raises similar issues [*Financial Post*, December 16, p. 11; June 24, p. 12; June 10, p. 11; and June 17, p. 3].
- 1934 House of Commons Debates [May 29, pp. 3454-58; and Ralston, p. 87] emphasized the importance of discouraging the abuses of stock promotion and capitalization in the 1934 legislation.
- 1934/35 Federal Companies Act legislation specified much increased disclosure in financial statements particularly with regard to greater detail in the income statement and the basis of valuation for inventories and fixed assets as well as the requirement to disclose a reconciliation of surplus accounts items. Consolidated financial statements, a long-standing practice, now permitted in the legislation. Auditors required to certify financial statements in prospectuses. This legislation was inspired by concerns and factors in Canada comparable to those that motivated the American Securities legislation of 1933-34 [Canada, Statutes, 1934 & 1935]. The legislation was well ahead of earlier counterpart legislation in Britain [Great Britain, Statutes, 1928, Secs. 39-40], but much less demanding than SEC Accounting Series Release No. 7 [Securities Exchange Commission].
- 1938 CICA's first publication: *Accounting Terminology for Canadian Practice*.
The Royal Commission on the Textile Industry (The Turgeon Report) noted inadequacies in the financial statement disclosure provisions of the 1934 Companies Act [Canada, Royal Commission, p. 127].
- 1939 Gap between the 1934 Companies Act disclosure requirements and the standards necessary for good reporting emerged [Capon, pp. 380-381]. Undertakings made by CICA with Queen's University to develop a series of research studies [General Notes, 1939, p. 288] aborted by war.

- 1943 Accounting Research Committee of CICA provided recommendations relating to the refundable portion of Excess Profits Tax [Refundable Portion, p. 140].
- 1946 Province of Quebec restricted the practice of “public accounting” to chartered accountants [Quebec, Statutes]. Initiation of CICA recommendations on authority of the *Accounting and Auditing Research Committee*. Bulletin #1 concerned with standards of disclosure for mercantile and manufacturing companies. Authorship attributed to the Committee on Accounting and Auditing of the ICAO [Wilson]. (Recommendations become enforceable when provincial Institutes require adherence in their rules of professional conduct—required first in 1973 in Ontario).
- 1947 CICA issued Bulletin #2 on the minimum standards of audit and disclosure in respect of prospectuses.
- 1948 CICA issued Bulletin #3 on the accounting treatment of the loss “carry-forward” and “carry-back” provisions, the tax liability of prior years and refundable taxes.
- 1948/
62/80 Chapters of the American based Financial Executive Institute formed in 1948; received federal incorporation in 1962 and single district Canadian status in 1980. Institute interested in the quality of corporate reporting through briefs to, and representations on, various influential organizations and committees.²
- 1949/54 Depreciation provisions of the 1949 Income Tax Act radically altered to promote government fiscal policy and to simplify calculation. Generous diminishing-balance rates of depreciation applied to asset pools introduced [Canada, Statutes, Secs. 7 & 8]. Requirement that depreciation taken for tax purposes (“capital cost allowance”) must not exceed the amount recorded on the taxpayers’ books rescinded, after much protest, in 1954 [Comment and Opinion, pp. 1-2].
- 1950 CICA issued Bulletins: #4 relating to accounting for bad debt losses; and #5 on inventory costs.
- 1951 The *Financial Post* initiated the sponsorship of annual awards for accounting content and design of financial statements.
CICA issued Bulletins: #6 relating to the standard form of auditor’s report; and #7 relating to auditor’s responsibility for validity of the inventory figure.

- 1952 CICA issued Bulletin #8 on depreciation for deferred tax purposes, emphasizing the distinction between the determination of income for tax purposes and for financial statement presentation purposes.
- 1953 Ontario Companies Act required income statement audit and increased disclosure in income statements, balance sheets and footnotes [Ontario, Statutes, Secs. 82-93]. Disclosure requirements based on the 1946 CICA Bulletin #1. The income statement audit had become a commonly accepted practice in the preceding decade.
- Initiation of CICA's biannual compendium of the accounting practices of approximately 300 corporations, *Financial Reporting in Canada*.
- CICA issued Bulletin #9 on the use of the term "Reserve" and accounting for reserves.
- 1954 CICA issued Bulletin #10 recommending the "deferred credit" basis of tax allocation but permitting the "taxes payable" or "flow through" method for the tax treatment of differences arising from depreciation for tax purposes (capital cost allowance) and depreciation for accounting purposes. 1954 marked the beginning of the increasing and sizeable appearances of deferred taxes accounts on Canadian corporate balance sheets. The CICA also issued Supplement to Bulletin #6 to reflect the change in Ontario legislation requiring the opinion section of the Auditor's report to use "presents fairly" rather than gives a "true and correct view."
- 1955 CICA issued Bulletin #11 on definition and appropriate use of the term "surplus."
- 1956 CICA issued Bulletin #12 on loss carry-over tax credits (superseding Bulletin #3).
- 1957 *The Royal Commission on Canada's Economic Prospects —Final Report* (The Gordon Report) indicated that very little is known about the financial activity of a significant portion of the economy owing to the financial statement disclosure exemptions for private corporations [Canada, Governor-General, p. 393].
- CICA Issued Bulletins: #13 on unaudited financial statements; and #14 on standards of disclosure in financial statements (revising Bulletin #1).

- 1958 CICA issued Bulletin #15 on confirmation of accounts receivable.
- 1959 CICA issued Bulletins: #16 on auditor's responsibility for the validity of the inventory figure (superseding Bulletin #7); and #17 on the auditor's standard report (superseding Bulletin #6 and its Supplement).

Delegation of Standard Setting: 1960 - 1983

The 1960 period reflected a significant measure of dissatisfaction with corporate reporting practices. Much of the controversy, reflected in the financial press and in variously appointed committees of inquiry, was centered on the wide diversity in accounting principles. A rash of bankruptcies and corporate failures, highlighted by the collapse of the Atlantic Acceptance Corporation, aggravated the situation [Murphy, pp. 18-20]. Additional disclosure requirements were added in provincial and federal legislation throughout the period. However, the concerns for requiring minimum disclosure and uniformity in accounting principles through amendments to companies acts were largely set aside by the momentous and un-requested—but not unexpected—designation of the *CICA Handbook* recommendations as mandatory standards by the Canadian Securities Administrators in 1972, the Canada Business Corporations Act in 1975 and the Ontario Securities Act in 1978. The 1981 recommendations of Dickerson, Howard & Getz [pp. 108-109] that minimum required contents of financial statements be dealt with by Regulation rather than by statutory provisions and the subsequent initiatives of the Department of Consumer and Corporate Affairs to have these Regulations defer to the *CICA Handbook* were formative in this regard.

Of great significance was the designation in 1966 of the Ontario Securities Commission (OSC) by the Ontario Securities Act to oversee the Toronto Stock Exchange with powers not unlike those of the SEC [Ontario Statutes, 1966, Ch. 142, Sec. 139]. This Act took much of its inspiration from the SEC legislation and though the Commission has not set up extensive review procedures for annual reporting, it has—and increasingly so—added an American-style dimension to the standard setting process in its prodding of the CICA to direct its attention to particular areas of concern. No instances exist of the OSC countermanding standards set by the CICA.

- 1960 CICA issued Bulletin #18 on qualifications in the auditor's report.
- 1961 CICA initiated its series of Research Studies as preparatory background for the eventual issuance of Bulletins [Thomas, p. 93].
CICA issued Bulletin #19 on financial statements of unincorporated businesses.
- 1962 The Corporations and Labour Unions Returns Act (CALURA) required of unions and public and private companies (annual sales of more than \$500,000 or assets of more than \$250,000) the annual filing with the Minister of Industry, Trade and Commerce, of annual financial statements and returns detailing management, share structure, ownership and foreign control [Canada, Statutes].
ICAO merged with Certified Public Accountants Association of Ontario [Creighton, pp. 235-246].
Governmental regulation of public accounting in Ontario restricted the practice of "public accounting" essentially to chartered accountants [Ontario, Statutes, 1961-62].
- 1963 Publication of CICA Study *Accounting for Costs of Pension Plans* by W. B. Coutts and R. B. Dale-Harris.
CICA issued Supplement to Bulletin #17 requiring use of standard auditor's report for prospectuses.
- 1964 *Report of the Royal Commission on Banking and Finance* (The Porter Report) noted that corporate disclosure standards in federal corporations acts are inadequate [Canada, Royal Commission, pp. 350, 560-561].
CICA issued Bulletin #20 on standards of disclosure in financial statements (superseding Bulletin #14).
- 1964/65 Canadian Companies Act legislation required financial statement disclosure provisions similar to 1953 Ontario Act [Canada, Statutes]; roughly the same lag in time as the 1907 Ontario and the 1917 Federal legislation!
- 1965 *Report of the Attorney General's Committee on Securities Legislation in Ontario* (the Kimber Report) recommended improved financial statement disclosure [Ontario, Attorney General, p. 29].
A financial scandal of international dimensions, the failure of Atlantic Acceptance Corporation, provoked broad interest in narrowing the range of acceptable account-

- ing practices; in defining more closely the extent to which a parent-company auditor may rely on the work of the subsidiary-company auditor; and in promoting interest in the requirement of audit committees of boards of directors [Ontario, Royal Commission . . . Atlantic Acceptance . . .].
- CICA issued Bulletins: #21 on accounting for pension plan costs; and #22 on reliance on other auditors in reporting on consolidated financial statements.
- 1966 Ontario Securities Act required that the auditor's report shall not contain any qualification where it is reasonably practicable to revise the financial statement presentation with respect to the matter that would otherwise be the subject of a qualification [Ontario, Statutes, Ch. 142, Sec. 46(4)].
- Following the Kimber Report of 1965, which found much of its inspiration in the model of the American SEC, the Ontario Securities Act gave on-going surveillance of Canada's chief exchange, the Toronto Stock Exchange, to the Ontario Securities Commission (OSC) [Ontario, Statutes, Ch. 142]. The OSC has much the same powers as the SEC, but has not set up intensive procedures to review annual financial statements.
- Ontario Companies Act Amendments required increased disclosure relating, *inter alia*, to funds statements, the provision of comparative figures and gross revenues [Ontario, Statutes, Ch. 28].
- Publication of CICA Study *Accountants and the Law of Negligence* by R. W. V. Dickerson.
- CICA issued Bulletin #23 on standards of financial reporting applicable to prospectuses (superseding Bulletin #2).
- 1966/69 Publication by Howard Ross, one of the most prominent of Canada's practitioners and educators, of two influential books advocating adoption of current valuations methods: *The Elusive Art of Accounting*, 1966 and *Financial Statements—A Crusade for Current Values*, 1969 [Ross].
- 1967 CICA issued Bulletins: #24 on accounting for government grants for fixed assets; #25 on the auditor's standard report (replacing Bulletin #17 and its Supplement); and #26 delineating the usage of "deferred" and

- “accrual” methods of tax allocation (superseding Bulletins #10 and #12).
- 1967/70/75 *Interim Report of the Select Committee on Company Law* (The Lawrence Report) indicated that “no need for amendments of major significance to the financial disclosure provisions of the Ontario Act” appear to exist [Ontario, Interim Report . . . , par. 10.1.4]. The Committee did recommend establishment of audit committees and these were first reflected in Ontario in 1970 [Ontario, Statutes, Secs. 171, 182] and later in federal legislation in 1975 [Canada, Statutes, Sec. 165].
- 1967/76 Organizational meeting and first annual conference held of the Canadian Regional Group of the American Accounting Association. Successor organization, the Canadian Academic Accounting Association, formed in 1976 [News, 1977, p. 15].
- 1968 Introduction of *CICA Handbook*, replacing the Bulletins on Accounting and Auditing Practices published since 1946. Dissents of Committee members no longer to be published. Loose-leaf handbook format is subject-indexed and cross-referenced and permits greater flexibility in revision and updating of Recommendations. Accounting Research Committee called for disclosure of departures from its Recommendations.
- Watkins Report on *Foreign Ownership and the Structure of Canadian Industry* detailed *inter alia* extent to which there is a lack of public disclosure of financial affairs of private Canadian companies [Canada, Privy Council, p. 214].
- CICA Handbook* Recommendations relating to: disclosure of departure from Recommendations in notes to financial statements and auditor’s report; and amendments to extraordinary items, prior period adjustments, capital transactions and unaudited statements.
- 1969 Unprecedented issuance of an accounting policy statement on the handling of profits for land development companies by the Ontario Securities Commission [Ontario Securities Commission]. Issuance prompted CICA to set up a liaison committee with securities commissions and stock exchanges [News and Events, 1970, p. 8].

- Toronto Stock Exchange required quarterly financial statements of listed companies [By-law 208, Sec. 1908].
CICA Handbook Recommendations relating to: standards of financial reporting applicable to prospectuses; and the classification of current assets and liabilities.
- 1970 Federal Companies Act legislation adopted additional disclosure requirements of Ontario Companies Act amendments of 1966 and abolished the financial statement disclosure exemptions for private companies [Canada, Statutes, 1969-70].
Publication of CICA study in cooperation with the University of Western Ontario on *Business Combinations in the '60s: A Canadian Profile* by S. Martin.
CICA Handbook Recommendations relating to: the reporting and calculation of earnings per share; and the auditor's report.
- 1971 Publication of *Proposals for a New Business Corporations Law for Canada* with recommendations that minimum required contents of financial statements be dealt with by regulation rather than by statutory provisions [Dickerson, pp. 108-109].
CICA Handbook Recommendations relating to: the financial reporting of diversified operations; interim financial reporting; amendments respecting extraordinary items, prior period adjustments, capital transactions and share capital; and unaudited financial statements.
- 1972 Publication of CICA studies on *Accounting Principles: A Canadian Viewpoint* by R. M. Skinner and *Current Value Accounting and Price-Level Restatements* by L. S. Rosen.
CICA Handbook Recommendations relating to long-term corporate investments.
National Policy Statement No. 27 of the Canadian Securities Administrators required financial statements to be drawn up to conform to the GAAP as reflected in the *CICA Handbook* [Canadian Securities Commission pp. 54-864]. This Statement, though not having the force of law, was the harbinger of the federally legislated delegation of standard setting authority to the CICA in 1975.
- 1972/73 CICA Accounting and Auditing Research Committee divided into two groups—the Accounting Research

- Committee (ARC) and the Auditing Standards Committee (ASC). Membership in the ARC to be broadened by representation from other occupational and institutional backgrounds; but no fewer than two-thirds of twenty-two ARC committee members to be CA's. All sixteen members of ASC to be CA's. Research staff of CICA expanded and a separate research studies section established [Mulcahy, pp. 69-70].
- 1973 ICAO required members to qualify audit reports in respect to financial statements not drawn up in accordance with the *CICA Handbook* [ICAO Rules].
Formation of International Accounting Standards Committee (IASC) of which Canada was a founding member [News and Events, p. 9].
CICA Handbook Recommendations relating to: refundable taxes, earned depletion allowance and tax rate reductions; expansion of treatment of tax losses and carryovers; and to business combinations.
- 1973/74 Publication of *CICA Studies: Financial Reporting for Life Insurance Companies and Financial Reporting for Property and Casualty Insurers*.
Province of Quebec legislated Quebec "Professional Code" which established the Office des professions du Québec whose mandate was to supervise and control the operations of the various professions within the Province. The membership of the Office was to be determined by the Government and the independent Conseil Interprofessionnel du Québec. The office to have representation on the governing bodies of each of the professions [Quebec, Statutes].
- 1974 Initiation of CICA procedure to have ARC and ASC periodically publish "Guidelines" as "interim-positions," or as clarifications of Handbook Recommendations. Guidelines do not have authority of Recommendations. Guideline issued on "Accounting for the Effects of Changes in the Purchasing Power of Money."
CICA Handbook recommendations relating to: the statement of changes in financial position (funds statements); and the disclosure of accounting policies.
- 1975 The recommendations of *The Report of the Independent Review Committee on the Office of the Auditor General of Canada* (the Wilson Report) on government accounts

related to the "value for money" concept, the reporting of changes in financial position statement, and independence of the Auditor General [Auditor General]. Canada Business Corporations Act abolished par value shares, expanded directors' liability, transferred financial statement content requirements to the (more easily altered) Regulations Section and modified auditor and established audit committee provisions. Most significantly, the Act required financial statements be drawn up to conform to the GAAP and generally accepted auditing standards (GAAS) as reflected in the *CICA Handbook* [Canada . . . Regulations, p. 189]. This requirement gave virtual unrestricted delegation of accounting authority in Canada to the CICA.

CICA Handbook Recommendations relating to: consolidated financial statements and the equity method of accounting; accounting for government assistance grants; generally accepted auditing standards; and conformity with or deviations from International Accounting Standards (IASC).

1973/76 Accounting Research Committee of the CICA issued Exposure Draft on "Accounting for Changes in the Purchasing Power of Money." Withdrawn in 1976 as considerations of current value accounting assumed importance.

1976 Accounting Research Committee of the CICA published Discussion Paper on "Current Value Accounting." CICA Accounting and Auditing Guidelines issued relating to recent "Federal Anti-Inflation Legislation." *CICA Handbook* Recommendations relating to: unaudited financial statements; and the auditor's standard report, wherein the financial statements are viewed to "present fairly" by virtue of their conformity with GAAP.

1977 International Federation of Accountants (IFAC) formed with the Certified General Accountants' Association of Canada, the Society of Management Accountants and the Canadian Institute of Chartered Accountants as charter members [IFAC, p. 13].

Federal government creation of a Comptroller General of Canada to be the chief financial administrator of the federal Public Service [Ottawa Report, p. 18].

Province of Ontario commissioned *Report of the Ontario*

- Committee on Inflation Accounting* recommended inclusion of effect of inflation in financial statements [News, September, p. 8].
- CICA Guidelines issued relating to: federal budget 3% inventory allowance; and term-preferred shares.
- CICA Handbook* Recommendations relating to: internal control; investment in joint ventures; and audit evidence.
- 1978 Ontario Securities Act required financial statements be drawn up to conform to the GAAP as reflected in the *CICA Handbook* [Ontario Gazette].
- Ontario Securities Commission proposed regulation requiring public companies in Ontario to file information which is otherwise requested from other jurisdictions—effective as of 1979. The general intention of the regulation is to secure any required filings for the SEC which are not otherwise required by the Commission [Information Begins . . . , p. 12].
- Issuance of *CICA Report of the Special Committee to Examine the Role of the Auditor* (the Adams Report). Recommendations extended to the auditor's role, enterprises subject to audit, the detection of fraud, illegal acts, the standard report, independence, regulation of the profession and education [The Adams Report].
- CICA Guidelines issued relating to: audit of candidates under Election Acts; frontier exploration allowance; and financial reporting by Property and Casualty Insurance companies.
- CICA Handbook* Recommendations relating to communication with law firms regarding claims and possible claims; foreign currency translation; research and development costs; contingencies; subsequent events; long-term investments; unaudited interim financial information; and leases.
- 1979 Publication of CICA Exposure Draft on "Current Cost Accounting."
- Public companies subject to the Ontario Securities Act are required to prepare quarterly financial statements for shareholders and Ontario Securities Commission [Quarterly Reporting, pp. 20-21].
- The (Staff) Report of the Professional Organizations Com-

mittee, *Professional Regulation*, commissioned by the Ontario Government recommended establishment of a new Public Accounting Licensing Admissions Board and the rescinding of the limiting of the practice of public accounting to chartered accountants.

CICA Handbook's 1978 Recommendations on foreign currency translation suspended pending further study. (Reissued in 1983.)

CICA Handbook Recommendations relating to: segmented information; disclosure considerations—related party transactions; auditing aspects of knowledge of the client's business, documentation, planning and supervision and special reports; and revisions of former Recommendation on subsequent events.

1980

Publication of *CICA Study Corporate Reporting: Its Future Evolution* by Prof. Edward Stamp.

Formation of Canadian Comprehensive Auditing Foundation to increase accountability in public sector [Canadian Comprehensive Auditing, pp. 14-15].

Office des professions du Québec recommended that practice of auditing no longer be exclusive responsibility of chartered accountants [Quebec May Open . . . p. 16].

Proposed Accounting Guideline on presentation and disclosure of forecast data in prospectuses and auditor's involvement therein issued by CICA. (Issued in final form in 1983.)

Publication by Canadian Academic Accounting Association of *University Accounting Programs in Canada: Inventory and Analysis* by Tom Beechy; and by CICA of *Accounting for Pension Costs and Liabilities* by Ross Archibald.

CICA Handbook Recommendations relating to: reservations in auditor's reports and the reporting of inconsistencies; accounting changes and prior period adjustments; and international auditing guidelines.

1981

Proposal by the Certified General Accountants Association of Canada to establish the Accounting Standards Authority of Canada. The Authority would promulgate GAAP thereby hoping to replace the CICA's Accounting Research Committee which authors the statutorily recognized *CICA Handbook*. (It has not succeeded in

- doing so as of 1983.) Member composition of Authority to have broader representation than the ARC [Accounting Standards Authority of Canada].
- CICA Report of the Special Committee on Standard Setting (SCOSS) recommends *inter alia* that the *CICA Handbook* should be written in terms of general principles rather than detailed rules, that the number of persons on ARC should be reduced, and that the percentage of non-CICA nominees be doubled. (ARC composition unaltered as of 1983) [Scoss Highlights].
- Formation of a new CICA committee, the Public Sector Accounting and Auditing Committee (PSAAC), to offer guidance and establish accounting and auditing standards for national and provincial levels of government.
- Publication of a joint study of the CICA and the Financial Executive Institute, *The Management Report in the Annual Report*, suggesting inclusion of a management accountability report in corporate annual reports.
- Corporations and Labour Union Returns Act (CALURA) amended raising reporting thresholds of the private companies to \$10 million in assets and \$15 million in gross revenues—effective as of 1983 [Canada Statutes, 1981].
- CICA Guideline issued on auditing in an EDP environment.
- CICA Handbook* Recommendations relating to: reliance on other auditors; audit of financial statements; fraud and error; auditor's report on non-consolidated financial statements in specified circumstances; and using the work of a specialist.
- 1982 *CICA Handbook* called for "supplementary information" disclosure of the effects of changing prices in annual reports of larger public corporations. Information to consist of income and balance sheet items related to inventories, fixed assets and monetary gains or losses.
- CICA Guidelines issued: Canada-United States Reporting Conflict with Respect to Contingencies and Going-Concern Considerations; extension of GAAP to financial reporting by Property and Casualty Insurance Companies; and Accounting for the Petroleum Incentives Program and Petroleum Gas Revenue Tax. This latter Guideline conflicted with the accounting treatment

- federal government desired, occasioning the first notable tension between the CICA standard setting body and the government. The Ontario Securities Commission supported the CICA Guideline by requiring companies with reservations in their audit reports to appear before the Commission [Crandall, p. 59].
- 1983 Establishment of a Canadian accounting journal, *Contemporary Accounting Research* by the Canadian Academic Accounting Association with publication to commence in 1984.
- CICA Guidelines issued relating to the presentation and disclosure of financial forecasts.
- CICA Handbook* Recommendations relating to: foreign currency translation; and disclosure of variations in the effective income tax rate.

FOOTNOTES

¹See reasons therefor previously indicated in the second paragraph of the introduction.

²From discussion with Mr. K. Smith former President and Mr. D. Simpson current Executive Director of the Financial Executive Institute of Canada.

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