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## Accountancy in the United States and Canada\*

BY FREDERICK H. HURDMAN

Your committee on arrangements has invited me to address this session of your convention as a representative of the American Institute of Accountants. Much as I appreciate the honor that has been accorded me, I must confess, nevertheless, that I have approached this address with a certain amount of misgiving, having particular regard to the difficulty of choosing a subject of sufficiently international scope to interest both yourselves and my fellow guests.

It appears to me that the subject of most interest from an international viewpoint is a comparison of the developments of our profession in this country and in my own, and although I believe this subject has been dealt with in the past I can assure you that, speaking for the United States at least, recent developments appear to justify an attempt to bring it up to date in the hope that the experiences of the last few years may be of mutual benefit.

I shall, naturally, not attempt to deal with developments outside the United States and Canada and, since it will obviously be unnecessary to tell the Canadian members present at a gathering of this kind much about the development of their own societies, I must be pardoned if I appear to devote the greater part of this address to the development in the United States and if I deal with that country's affairs first and later bring in your own historical details for the purpose of comparison. It would be useless to attempt to dwell on recent developments without giving a little of the history leading up to existing conditions, and I shall, therefore, start by sketching as briefly as possible the early growth of the profession.

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\* Address delivered at a joint meeting of the Dominion Association of Chartered Accountants and the American Institute of Accountants, Toronto, Ontario, September 21, 1928.

HISTORY—UNITED STATES

Little record of any attempt to practise accounting publicly in the United States before the year 1866 can be found, and no attempt at organization appears to have been made until 1887, when there was incorporated in New York state the American Association of Public Accountants. This body may be considered as the forerunner of the American Institute of Accountants and, as such, it is interesting to dwell briefly on its history.

The Association was discussed in 1886 by six or seven practising accountants of very good standing and in the following year a certificate of incorporation was obtained, having eight original signatories. The members apparently aimed at a certain amount of at least financial exclusiveness, as they fixed the entrance fee at an even \$100. The objects of the Association were stated to be:

“To associate into a society or guild for their mutual benefit and advantage, the best and most capable public accountants practising in the United States and through such association to elevate the profession of public accountancy as a whole . . .”

It is interesting to note at this point what high-minded ideals were stated and what a high type of membership was obviously sought.

Our first C. P. A. law was that of New York, passed nine years later, in 1896. This was followed by the Pennsylvania law in 1899 and by numerous others in rapid succession. Today each of the forty-eight states, as well as Alaska, Hawaii, the Philippines, Porto Rico and the District of Columbia, has a C. P. A. law.

The logical consequence of the passage of the state C. P. A. laws was an attempt by the certified public accountants to join together for their mutual protection and advantage in the same way as the original public accountants had done, and we find that in 1897 the first state society of certified public accountants was founded in New York. This example was also rapidly followed by other states and numerous societies of similar type were formed, the membership, in some cases, being open only to certified public accountants of the state concerned.

This movement was followed by another equally logical step. The state societies were increasing in size and importance, but were finding themselves of little significance outside their own states and of practically no help to the profession when regarded from a national point of view. An attempt was made to over-

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come this difficulty when, in 1902, the Federation of Societies of Public Accountants in the United States of America was formed. Its objects were stated to be:

“To link the several existing state societies together under one control, for mutual protection and advantage, to promote additional state societies of public accountants, to encourage uniform state C. P. A. legislation and ultimately to secure recognition from the federal government.”

There were, thus, at this time two national bodies, the American Association of Public Accountants and the Federation of Societies of Public Accountants, the membership of the former consisting of accountants throughout the country, that of the latter consisting of the membership of the state societies. These two organizations were apparently considered as overlapping, for in 1905, only three years later, they were amalgamated, the name of the American Association but the constitution of the Federation being adopted. The adoption of this form of constitution appears to have been actually a step backward in the search for national control as it was found that little discipline could be exercised over the widely scattered members who were such merely by virtue of their membership in the state societies, which were, in turn, as societies, affiliated with the national body. Nothing was done to overcome this defect, however, until 1915, when a special committee of the Association was formed to look into its organization. The report of this committee gives a particularly fine summary of the conditions existing at that time and draws attention to some of the other “growing pains” from which the profession was suffering. It calls special attention to the difficulties that were being encountered in the lack of uniformity of state laws in the source and type of administrative authority, preliminary educational requirements, technical requirements, examination standards, reciprocal provisions between states and the admission, under waiver clauses, of accountants practising at the time of passage of C. P. A. acts.

It was found, to quote one example, that of thirty-nine states with C. P. A. laws nine issued certificates which were not acceptable as adequate credentials for membership in the Association. To quote from the report of the committee:

“The conclusion is, we think, unavoidable that in some states the title C. P. A. is of low repute and even if the impossible were to happen and corrective measures were at once adopted in those states, many years would pass before the title could command the respect of the business community . . .”

Later the report states:

“What then is needed is some form of yardstick which can be applied fairly to accountants in every part of the country, which will indicate to the business public in every state that the accountant who has been measured by it has at least attained to a reasonable minimum in preliminary education and professional training, and that subsequently to his admission he has conducted himself as an honorable member of the profession.”

The committee recommended the formation of a body, purely national in scope, to foster the growth of the profession in numbers and influence and to promote and serve the interests of the business public. It suggested that the profession, as represented by its national organization, should assume directly the establishment of uniform standards of admission to, and the maintenance of conditions for, membership in the organized body of the profession. This was, of course, a return to the underlying idea of the original association in 1887.

The immediate result of the findings of this committee was the formation, in 1916, of the American Institute of Accountants to assume the membership of the Association, to carry out the programme recommended by the committee and to elevate the standards of the profession as a whole. Its objects as stated in its by-laws are:

“To unite the accountancy profession of the United States; to promote and maintain high professional and moral standards; to safeguard the interests of public accountants; to advance the science of accountancy, to develop and improve accountancy education; to provide for the examination of candidates for membership, and to encourage cordial intercourse among accountants practising in the United States of America.”

A study of current C. P. A. legislation, both existing and proposed, shows that there is probably an even greater need today than there was then for the carrying out of the programme thus entrusted to this body.

Outstanding features of the by-laws of the American Institute are that there has been established as a prerequisite of membership high standards of preliminary education and subsequent theoretical knowledge and practical experience, and that membership is thrown open to any who can come up to these standards. The Institute may recognize, as evidence of acceptability, the C. P. A. certificates of many of the states whose standards are high, but it conducts its own examinations independently. It has done much toward the development of the examination standards, and its papers are now being used by a majority of the

states for their C. P. A. examinations under arrangements with the state authorities. Further examples of its efforts to build a profession in the United States can be found in certain outstanding achievements, particularly the enforcement of a high code of professional ethics; the foundation of a library and of bureaus of information, public affairs and placements; the issue of its magazine, *THE JOURNAL OF ACCOUNTANCY*; the sponsoring of the publication of a few standard educational works, and its coöperation with bankers with the object of obtaining more uniform standards in certified statements. In spite of the committee's conclusions as to the hopelessness of obtaining really satisfactory recognition for the C. P. A. certificate, the Institute has rendered a great amount of help to the state organizations in their efforts to build up the standing of that certificate, and the matter of examinations is only one of those on which it can be found working and coöperating harmoniously with the states for the betterment of the profession as a whole.

In 1921 a body was formed under the name of the American Society of Certified Public Accountants. Membership in this body is open to all persons holding state certified public accountant certificates, whether they be practising or not. The objects of this society are stated to be the protection and fostering of the certificate of certified public accountant, the rendering of assistance to government authorities in regulating the public practice of accounting to the end that it may become a legalized profession, the improvement of professional standards and the promotion of affiliation by C. P. A. organizations in the states.

Another body, of rather more significance to the public than to this paper, is the National Association of Cost Accountants, organized in 1919 to deal with a somewhat more specialized branch of our work. It throws open its membership to accounting executives, officers of industrial concerns and, in fact, to anyone sincerely interested in its objects. It has done some fine progressive and educational work.

#### LEGISLATION—UNITED STATES

It would perhaps be interesting, now that we have reviewed the organizational history of the profession in the United States, to go back and make a review of the legislative development.

We have seen that in 1887, when the American Association was incorporated, the fundamental idea was the formation of a na-

tional body to build up a profession of high standing, and for some time after this it was hoped to effect national legislation.

Those of you who are at all familiar with the legislative history of the United States will realize how jealously the states guard their constitutional right to regulate their own internal affairs. This feeling soon caused a departure from the old idea of national control for the profession and we find that in 1896 New York led the way with the first C. P. A. law. The second law was passed by Pennsylvania in 1899 and there was immediately evident a lack of standardization in C. P. A. legislation, for whereas the New York authority was vested in an educational body, the board of regents, Pennsylvania, having no such educational body to which it could delegate this authority, turned to its executive departments and authorized the governor to appoint a board of examiners. The example of each of these states was followed by many others and in time further fundamental differences in state laws arose, particularly in the provisions for preliminary educational requirements, for the conduct and standard of examinations, for restriction of practice and for reciprocity.

The first of these differences, in preliminary education, is perhaps the least difficult to overcome, as most of the states are becoming aware of the futility of endeavoring to build a stable profession with men who have not at least a good, sound general education.

Much progress is also being made with regard to examination standards. This work has been one of the particular cares of the Institute which I represent and it is particularly gratifying to report that thirty-seven jurisdictions are now using the papers of that Institute for their C. P. A. examinations. Attention might also be called at this point to the work done by the Institute some years ago in the successful litigation against an association which was offering C. P. A. certificates to practically anyone who cared to sign on the dotted line and pay a nominal fee.

Restriction of practice is one of the larger problems with which the profession is faced. Liberty is such an essential feature of the American citizen's perspective that any attempt at restrictive legislation almost immediately causes an outcry by the cashier who operates a cash register, pleading that he is an accountant and would thus be deprived of his daily bread. On the other hand the great spread of advertising and other unethical practices is without question a menace to the higher type of practitioner.

Wide divergence is apparent on this subject and three main types of legislation are now existent. In New York we have an example of the first type, in which the C. P. A. certificate is recognized and practice is permitted by persons not holding that certificate provided they do not practise as C. P. A.'s.

The second type is exemplified by Maryland, where only C. P. A.'s are allowed to practise but where a large body of accountants in practice at the time that the act was passed has been permitted to register as public accountants and continue in practice until the class becomes extinct.

The third type gives us pure, unadulterated restriction and is found in Oklahoma where the law provides that only C. P. A.'s can practise. It is interesting to note, however, that the supreme court of Oklahoma has affirmed the opinion that this act is unconstitutional in so far as it attempts to restrict the public practice of accountancy to the holders of C. P. A. certificates.

A bill of outstanding interest was the McGinnies bill proposed in 1924 in New York state and supported to a large extent by the New York State Society of Certified Public Accountants. This bill provided for the issuance of certificates by the board. These certificates were, in effect, licences to practice and had to be renewed annually. They were to be granted to C. P. A.'s and to those admitted under a waiver clause. Penalties were provided for the practice of accountancy by a person not holding a certificate. This bill passed the assembly and the house and was then vetoed by the governor mainly on the grounds of objection to its restrictive feature. It was followed in the succeeding years by many bills of a similar type but none of these ever reached the statute book. The question of waiver clauses is closely bound up with that of restriction and many accountants hesitate to admit a great body of unsatisfactory accountants as C. P. A.'s under such a clause in order to obtain restriction—possibly to find subsequently that restriction can not be enforced.

Reciprocity is another of the larger issues. In 1923 a questionnaire was sent out to the states by a committee of the Institute, formed to investigate this subject. Great lack of uniformity in practice was revealed. Thirty-one states responded; some had no reciprocity provisions whatever; some were definitely opposed to it and some had legal obstacles preventing it. The difficulty is, of course, largely interwoven with the differences of preliminary education and examination requirements and it is not



likely that any real progress will be made until these matters have been thrashed out.

I have pointed to many of the differences in state legislation but have not, by any means, dealt with them all. It is interesting, however, to call attention to a few of the exceptional state provisions. Illinois, for instance, has two existing accountancy laws, one passed in 1903, establishing the C. P. A. certificate; the other passed in 1927, specifically avoiding repeal of the former act and establishing recognition of public accountants. In addition to this Illinois indulged in a most radical piece of legislation in 1925 when a law was passed under which existing certified public accountants would have been permitted to practise until they became extinct and a new group designated "public accountants" would have been recognized and would, in time, have made up the profession. It is, perhaps, as well that this measure was declared unconstitutional and was repealed in the following year.

In New Hampshire the regulation of public accountants is under the control of the bank commissioners and candidates for examination may be examined in specialized banking subjects and be termed "public accountants for banks" if they so desire.

The Oklahoma law provides for three degrees, certified commercial accountant, certified municipal accountant and certified public accountant.

Certified public accountant legislation narrowly escaped disaster in California in 1926 when a bill introduced to repeal the existing law and to abolish the state board was defeated by only one vote.

Some states do not attempt to define a public accountant. Others have attempted such a definition. One state specifically excludes from its restriction the practice as tax advisors of persons and firms so holding themselves out to the public. Some states go to the extent of specifically providing in their acts that no certified public accountant or public accountant shall be permitted to disclose or divulge information obtained by him during the course of his practice.

I have dealt at some length with these state laws in order to show what a great amount of work has yet to be done before the C. P. A. certificate can obtain any real national or international significance.

CANADA

Let us now turn to the conditions existing in your own country. Here I must immediately acknowledge my indebtedness to Mr. George Edwards for the wealth of information contained in a paper he read before a meeting similar to this at Seattle in 1915. He shows that from 1864 onward a certain amount of accounting was done but that no effort was made at organization until 1880 when the Montreal and Toronto societies were formed, followed in time by many others. He then deals with the period from 1910 onward when the first attempts at national organization bore fruit and the Dominion Association was formed. This type of organization appears to have been admirably suited to the country as there seems to have been no material change since that date.

For the purpose of comparison the fundamental principles of your existing organization will be outlined. The provincial and national associations both receive their authority by virtue of the acts incorporating them and these acts are, of course, subject to the limitations imposed on the jurisdiction of the national and provincial legislatures granting them. The national parliament legislates on matters such as customs, defense, railways, banking, etc., and the provincial parliament on such matters of local concern as licence, property, education, civil rights, etc. The chief functions of the existing accountancy organizations being education and examination and the granting of distinctive civil status to certain persons, it follows that the jurisdiction in this matter lies with the provincial rather than the national legislative body, and any attempt to form a national body to perform these objects must, of necessity, fail from lack of legal authority to do so. Leaving the responsibility for education and examination in the hands of the provincial institutes, therefore, there has been formed a Dominion Association which is, in effect, an organization providing the means for coöperation between the various provincial associations with the object of benefiting the profession, its members and the public from a national point of view.

The Dominion Association's council is made up of representatives from the provincial institutes according to their size. Executive authority devolves annually and automatically upon representatives of the provincial institute next in order of seniority. The membership is automatically the resident Canadian membership of the affiliated provincial institutes and there is no admission

except through those societies. Alterations or amendments to by-laws require the approval of all the constituent institutes.

The stated objects of the Dominion Association are to secure the incorporation of a provincial society where none exists; to assist these societies in securing uniform legislation on standards of examinations and membership; to arrange for reciprocal privileges; to consider questions of ethics; to secure harmony of action in matters affecting the common interest and, generally, to act in an advisory capacity to the societies. The measure of success with which the Dominion Association has pursued these objects must be too obvious to all of you here to call for any comment on my part and I imagine that those charter members who are still with us must be extremely gratified when they can look around and see working in harmony and in a spirit of coöperation, for the benefit of the profession at large, the institutes or societies of Quebec, Ontario, Manitoba, Nova Scotia, British Columbia, Saskatchewan, Alberta, New Brunswick and Prince Edward Island.

#### CONCLUSION

In drawing conclusions and comparisons from this narrative, one or two big differences in the governing circumstances must be borne in mind. You have adopted the title "chartered accountant" in use over a long period in Scotland and England, whereas we have endeavored to build up similar significance for a title of our own. A difference crops up again in the fact that admission to membership in many of your societies is still subject to service under articles. I hardly dare think of what the young American boy would say were he confronted with the prospect of paying for the privilege of working for a period of years with only nominal, if any, remuneration. There is no question that the larger number of states we have to deal with is quite a factor and this difference is added to by the many different types of thought represented by these states. Some of our states have a preponderance of the Latin element, some of the Teutonic, some of the British, and to add to this there is the ever present freedom of thought that one would expect in a country of such amazing and rapid growth.