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Early Days of American Accountancy

BY JAMES T. ANYON

III

I wish to digress a little at this point to say a few words on the subject of figures, which happens to be one of my pet topics. In the old days accountants were often looked upon and referred to as "men of figures." Now just what does this mean in the minds of those using the term? It means a man who deals in and loves figures for themselves, calculates, balances accounts, prepares elaborate statements, looks for errors, thinks figures, sometimes juggles them and always writes and talks them, and in proportion to his skill in this direction so does he consider himself a good and capable accountant. A man of such a type in his general practice is likely to base his findings and conclusions on the figures he finds on records rather than on the facts behind those figures. The latter are paramount, facts and truths automatically becoming secondary. If, for example, he sees on records which he is examining a property asset standing at a certain value, he is prompted to accept such value as a truth because the figures say it is so.

The well trained and experienced accountant of today on the other hand is not a man of figures in the sense as described. He is rather a man of facts and truths, and figures become subordinate and are used only as a means of expressing such facts and truths. In dealing with accounting matters he is not only skilled in what I may term the technique of accounting, that is figuring, balancing, adjusting and so forth, but he understands and applies the fundamental principles governing accounts and their relations one to the other; he knows the elements that properly enter into and constitute profits and losses, the underlying theories of capital and income and so on. In any account or

statement put before him he does not take the figures at their face value. They are secondary and his thoughts at once center on the questions: What do they stand for? What are the actual facts and truths behind them? And he proceeds to examine and adjust them accordingly. In other words, the accountant makes his figures fit in with the facts: the other man the facts to his figures.

Now there are a great many men of figures who imagine that they are good accountants in practice today. There are also a great many good accountants. The former can usually be recognized by the nature of their reports, filled with figures, accompanied by wonderful and voluminous exhibits that bewilder the layman and leave him no wiser than he was before. The reports of the latter, on the contrary, are usually of a briefer character, giving such figures only as are needful to state required facts and essential things, and if necessary opinions and views on questions of use and interest to the client concerned. The difference between the two can probably be better expressed and understood if I state what a well-known New York lawyer remarked to me some time ago. He said: "In the course of my professional practice I have seen and read many accountants' reports, and what has always impressed me the most in reference to the majority of them is that they contain lots of figures but no brains." There's the whole of my argument in a nutshell and before finishing I would like to say a few words to the young, rising and ambitious accountant of today who loves his profession. Don't allow yourself to be mesmerized by figures. I agree that they are very alluring but be a little suspicious and don't trust them too much. Use figures as little as you can. Remember your client doesn't like or want them—he wants brains. Think and act upon facts, truths and principles and regard figures only as things to express these, and so proceeding you are likely to become a great accountant and a credit to one of the truest and finest professions in the land.

Toward the end of the year 1888 and the beginning of 1889, accountants in practice here experienced a feeling of much curiosity and surprise to find suddenly amongst them a number of English and Scottish accountants engaged in special and important accounting work for a number of industrial undertakings in this country. These accountants were the representatives of certain prominent London accounting firms who had been sent

here to examine the financial condition and earning power of undertakings on behalf of certain English "syndicates," as they were then termed, formed over there to purchase American industrial properties of good standing which could show large earning power, the object being to incorporate and capitalize them under the English laws and float the securities on the English market. These operations were confined in the first place almost exclusively to American breweries, which in those days were undoubtedly large profit-making undertakings. The first of these to undergo examination was the Kreuger Brewing Co. situated in Newark, New Jersey, which was later acquired by an English syndicate, and then followed a number of others, namely, the Rochester breweries, San Francisco breweries, Denver breweries, St. Louis breweries, Chicago breweries and several others. I think the first industrial undertaking not a brewery examined by accountants and later taken over in the way referred to was the Otis Steel Company of Cleveland. This company was subsequently repurchased by American interests and operates as an American company at the present time.

As will be seen, the accounting work necessary to be done in the process of acquiring these properties was great and important, and it was performed entirely by foreign accountants. This circumstance had a decided influence for good on the profession at large. In the first place, it had what may be termed an educational effect, inasmuch as it gave American accountants an insight into the nature and responsibility of the work experienced accountants were called upon to perform and how they went about doing it. In the second place, it opened the eyes of business men here for the first time to the fact that there existed an important and useful profession in regard to which they had known little or nothing previously, and in respect of which they saw advantages which in the future would undoubtedly inure to the benefit of business at large. At any rate the visit of these men having for its object the examination of the financial affairs of American commercial enterprises, intelligently and thoroughly going over their books and records within a limited time, and completing the work so as to be able to exhibit and report upon the financial conditions and earning power of such enterprises was naturally a surprise to many and at the same time an instructive experience.

The year 1890 and several years thereafter represented a period

of undoubted development and advancement in accounting both in better knowledge of the profession and its requirements on the part of its practitioners and also in the fact that bankers and financial men generally began to understand better the nature of its work and service. They were the first to perceive real merit and benefit in the employment of accountants in many business matters, and evinced a willingness to give the profession a larger recognition and to avail themselves of its services.

This feeling was further intensified by the fact that about the period I am referring to or possibly a little later a number of fairly large accounting firms sprang into existence and became established with offices mainly in the city of New York. Some of these firms were of English origin and others purely American. Amongst the former and one of the first, was the firm of Jones, Caeser & Co. (afterwards Price, Waterhouse & Co. of London) established in 1890. I think it can safely be said that the profession received a pronounced impetus, and recognition became more general on the part of the public soon after the advent of this firm, mainly from the fact that it was appointed in 1891 as auditors and accountants to the United States Steel Corporation, an event that perhaps contributed more to creating a realization on the part of the business world here as to what accounting and auditing really meant than any other occurrence at that time. Of the American firms which a year or two later became established and quickly became prominent and important, and are still enjoying these distinctions, may be mentioned Haskins & Sells, Lybrand, Ross Bros. & Montgomery, Patterson, Teele & Dennis, and several others.

Another fact about this time also tended to the further development of the profession. A number of industrial concerns became incorporated under the laws of the various states, and their securities were issued and offered to the investing public. In most of these cases bankers employed accounting firms practising here to make examinations and reports on the financial condition and earnings of these undertakings before offering the securities for public subscription. This work was usually reflected in the form of a short report or certificate given by the examining accounting firm of its findings and published in the bankers' prospectus.

I believe the first industrial firm so incorporated whose securities were offered to the public with an accountant's certificate

attached to the prospectus was the firm of John B. Stetson & Co. of Philadelphia early in the year 1891. Other industrial firms were incorporated in rapid succession and the services of professional accountants became general.

Gentlemen of the legal profession were the last in line even moderately to recognize that accounting was a separate and distinct profession or that it played any special rôle in the affairs of the business world. They persisted to the last in looking upon the accountant as no more than a well informed book-keeper and held a quiet contempt for his pretensions that he was anything else. As an example of this feeling, I will relate a somewhat amusing incident which happened to me.

I was subpoenaed to appear and testify as an "expert" on behalf of the creditors in the case of a fraudulent bankruptcy where it was claimed that the debtor had illegally drawn large sums from his business to the detriment of his creditors at certain dates when he knew that he was in a bankrupt condition. His attorney sought to prove that these drawings had not taken place. It was a fact, he admitted, that some moneys had been drawn by the debtor on or about the dates named, but that these were minor sums taken by the debtor for his own personal support and maintenance. After being put on the stand and certain direct evidence had been given, the debtor's attorney took me in hand. His preliminary abrupt question was "You claim to be an expert bookkeeper." I was a little surprised at this sudden and blunt question and slowly replied that while I understood about bookkeeping both theoretical and practical, I was not exactly a bookkeeper. He came back to me again rather savagely: "It is your business to write up, balance and keep the books of others requiring service of this kind." I replied again that this was not exactly my business—that I was a professional accountant, whereupon he quickly turned to the judge and said: "Your Honor—I submit that this witness on his own showing is not a bookkeeper and therefore is incompetent to give evidence in this case and I move that the whole of his testimony be stricken out." The judge took a different view and smiling slightly requested him to go on with his examination.

What followed was a little too funny not to relate. The attorney requested me to open to a certain page in the debtor's ledger (the cashbook had previously mysteriously disappeared) wherein was found the debtor's personal account. He said, "I

want you to look at that account and tell me if it is not a fact according to the account there shown that the debtor on such and such a date drew from his business \$125." I replied that according to this account on the date named the debtor had actually drawn the sum of \$1,000; that the figure 125 was not the amount drawn but the page of the cashbook from which the posting had been made. Here was the case of an otherwise bright attorney who had evidently personally examined the ledger account of his client and taking the first column of figures he saw (which were the cashbook posting folios) had concluded that these were the "large alleged drawings" his client had taken out of his business which were objected to by his creditors.

Lawyers in these days are not all like the one above, but while in many cases members of the legal profession do recognize the services of accountants as being of special value to them, this recognition is by no means general. This is a pity, for accountants are usually ready to consult members of the legal profession on special matters they may have in hand for clients to be sure their opinions and findings conform in every respect to the legality of the case at issue. On the contrary it is rarely the case that lawyers will seek the opinion of accountants in matters where law and accounting play an important part so as to be satisfied that their findings and provisions are in harmony with accounting principles and exactness. I have seen many cases where, mainly in the matter of the preparation of contracts and agreements in commercial affairs, attorneys have failed to prepare these so as to give full and proper effect to the accounting element contained therein. It is obvious that unless the legal part of these instruments fully harmonizes with the accounting part and each fits in its place, dispute and trouble are likely to be the result and possibly expensive litigation will follow.

A very good example of what I am here referring to, viz. the value of accountants to lawyers, can be given in the case of one of the former partners of my firm, Sir Hardman Lever, whose services were contributed by the firm to the British government during the war in 1916. He was allotted to the munitions department of the government and his services and knowledge as an accountant in the matter of interpreting, adjusting and settling contracts made by the government with contractors (these were no doubt correctly prepared from the usual legal standpoint) were such as to cause a saving to the country of

many millions of pounds sterling. This fact was openly stated during a debate in the British house of commons and for such services he received very high honors. I will say, therefore, that it appears to me that it would be decidedly to the advantage and interest of the two professions if accountants and lawyers acted reciprocally in cases of all commercial and other matters where law and accounting together enter as elements.

I do not think it is necessary for me to trace the early history of the profession any further. This early period began in 1883 and practically ended ten years later in 1893. From the latter period on, accounting became a real profession. The quality of the practitioner improved, the extent and diversity of his knowledge became greater, and altogether he gave to it a status and an atmosphere it had hitherto completely lacked, an atmosphere that carried with it knowledge, truth, precision, trustworthiness to an extent it had never before known. Then, when these influences became apparent, and it was perceived that they formed the foundation and the real essence of the profession, the public, the banker, the lawyer and business men generally recognized that accountancy was a good and beneficial thing always wanted which had not reached them till this time. And as the American business man is wise, intelligent and alert at all times to adopt and take advantage of any beneficial and useful thing as it appears, so from this time on he became a patron of the profession and this patronage has grown and intensified to this day.

Therefore, from the year 1893 I must leave to the pen of some other chronicler far more able than I to record the history of the profession and the interesting and far-reaching developments that later took place. He will commence probably by recording how the efforts of the members of the American Association of Public Accountants through the untiring efforts and patience of its members, to obtain some kind of legal recognition of the profession by the state, culminated in 1898 in an act conferring upon the regents of the university of the state of New York power to grant certificates of qualification to accountants then in practice who could comply with the necessary requirements laid down by the regents. He will proceed also to record when and under what conditions the New York state society was formed and other societies in other states, and he will no doubt refer to what I think had a considerable influence for good on the profession and added greatly to the knowledge and proficiency

of many connected with its practice, I refer now to the establishment of the school of commerce, finance and accounts founded by the late C. W. Haskins, then an active member of the well-known firm of Haskins & Sells. This chronicler will also probably review the valuable accounting literature which began to appear soon after 1893 and to the establishment of THE JOURNAL OF ACCOUNTANCY a few years later. This then will be the beginning of the work of the chronicler as mine ends.

I do not wish to finish this narrative without saying a few words on my own account in reference to the profession which I embraced nearly fifty years ago and have ardently loved all my life. I have loved it for its possibilities, its usefulness, its interesting problems, its exactness, for I look upon true accounting as an exact science. I have been in touch with it here from its inception, have seen its set-backs, its progress and development till it has become second to none as a profession in usefulness and importance in the land, and that it will continue to progress, although it is already on an advanced and a high plane, I have no doubt whatever. I believe the young professional accountant of to-day will be called upon for far greater things in the future than those that now constitute his daily practice. I believe it will eventually become apparent to men of the business world that the professional accountant (and when I say this I mean the real thing, the one who knows, who understands business principles and their relation to the theory and practice of accounting, the one who has matured in his knowledge born of long and varied experience) should have a place on the board of direction of all mercantile and manufacturing concerns in the country. I have seen many cases in my time where losses through defective costing or accounting could have been prevented or materially lessened, where expensive litigation even, arising through contracts and agreements entered into without proper understanding and consideration for accounting principles, could have been avoided if the experienced accountant's knowledge had been made available by his presence on the board. I believe the accountant will be called upon in all cases where mercantile losses arise, not only to show the extent of these losses which he now does, but the real cause of them, how they might, through proper accounting methods and analysis, have been prevented or lessened and how they can be avoided in future operations. I believe further that accountants will be appointed receivers and

trustees; that laws will eventually be enacted compelling all corporations and companies, all business and financial undertakings where the public and outsiders are interested, to have their operations audited, analyzed and passed upon by legally authorized auditors qualified to do this work, and finally that their services will be sought to audit and check periodically the accounts and records of municipalities and departments of the federal and state governments. In other words, true accounting, born of precision and exactness, will permeate in the future all mercantile and financial matters where truth, accuracy and honest action are the requisites.

When that time arrives the profession of accounting will at last have come into its own—and I hope that day may not be far distant.