

## American Accountancy, An Overview, 1875-1900

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The history of business and commerce has continuously made reference to some manner of accounting. Although in the present business environment accounting bears little resemblance to early methods of keeping tally, there are threads of thought that have woven through time with regard to its uses and function. In addition, one might agree that "The shortcut to truth is found in the preservation of the ledger and the checkbook" [18].

Lucy Maynard Salmon, in commenting on historical essays [23, p. 249], came very close to describing the approach to and the value of accounting. She wrote that the ". . . value [of an historical work] rests on the method with which the records are collected, verified, tested, collated and interpreted." One of the major functions of accountants is to classify economic events into descriptive categories and then to generalize and characterize these events for a given time period.

Although the intrinsic value of an historical work may not rest upon the period covered, the time period in which events occur is of great importance in accounting. An accounting process has as its end result the translation of economic activity into a systematic medium of communication. This communication is useful only if it is generally congruent with the prevalent economic philosophy.

Because of the currency of economic events and the need for accurate and relevant information for decision purposes, accountancy has emerged in a slightly different manner from other professional areas. Joseph C. Myer [17, pp. 48-49] has noted that accounting ". . . must precede or at least keep abreast of the developments of commerce. The profession of law . . . usually follows such developments after commerce has led the way. However, commerce itself will fall flat unless accountancy provides the means for recording accurately and interpretatively, business facts."

Through the years accountants often have been viewed with suspicion because accountancy was regarded as a somewhat arcane art. Even some of those who became successful accountants entered the profession with trepidation. T. Edward Ross, who was a found-

ing partner of a national public accounting firm prior to accepting an accounting position in 1885, had served as a secretary to a gentleman in the suburbs of Philadelphia. Of this position he recalled [21, p. 14], "This gentleman had . . . worked intermittently on a Greek dictionary of the New Testament . . . the careful comparison of definitions given in the various works and the exercise of mature judgement in amending and amplifying the text of prior editors may have had a part in the preparation for my new occupation which seemed to be much more mysterious than even the Greek."

The term "accountant" has been attached equally to those who function as bookkeepers or to those who control the financial activities of large enterprises. R. Kirk Batzer [1, p. 14] described an accountant as a ". . . person who explains the results furnished by the bookkeeping and who draws the necessary inferences as to the condition and conduct of the enterprise. A knowledge of the principles of bookkeeping and extensive skill in their application have been considered prerequisites to being an accountant . . . ."

To a great degree the aura of mystery that surrounded accounting and accountants has been dispelled. Like most other disciplines, accounting evolved in a pragmatic but discernible manner. In general, most of the people, institutions, and major events that affected the evolution of accounting theory, practices, and organizations have been identified. However, it was during the last quarter of the 19th century that accountancy began to emerge as a professional discipline in the United States. An overview of American accountancy during this period might be seen through an increasing awareness of accountancy as a profession, organizational efforts by accountants, and the education of accountants.

## AN EMERGING PROFESSION

Thomas G. Higgins wrote in his autobiography [9, p. xiv] that "professional accounting is a product of the twentieth century . . . ." But one must agree with John Bright that we stand on the shoulders of our forefathers, and we can see farther [23, p. 230]. Metaphorically, the accounting profession in the United States had a father who was British and a long list of kinsmen connect it with nearly every country in Europe. The strong British influence on American accountancy persisted into the early 1900s.

During the last quarter of the 19th century the practice of accounting in the United States was largely restricted to the original entry of transactions, to auditing these transactions, and to the preparation of reports for owners. The major use of the reports was to satisfy creditor demands. Proper handwriting and mathematical accuracy were emphasized rather than the potential

uses of accounting information for management and investment purposes.

In his book published in 1908, William Morse Cole [4, pp. 1-2] was critical of this apparent stagnation of accounting when he observed that "Perhaps no field in connection with business activity in America has advanced so little in the last twenty-years as accounting . . . . Until a few years ago accounting remained well-nigh stationary."

However, it was a period of dynamic growth for American business. From the close of the Civil War until about 1897 there was a continued rise in the purchasing power of the dollar in the United States, interrupted only by a slight reversal between 1879 and 1882. The concept of *laissez-faire* was present in the American business environment and there was little legal interference with business practices.

Although the practice of accounting may have been well-nigh stationary, Richard P. Brief [2, p. 19] concluded that the last decades of the 19th century " . . . were a 'golden age' of accounting thought." In many ways it was a period when the "essence" of accounting in a modern economic environment could be debated in an atmosphere free from governmental requirements or restrictions. The "essence" of accounting centered around (and still centers around) truth in accounts and full financial disclosure.

Those engaged in the practice of public accounting, which was emerging as an identifiable profession, were deeply concerned with ethical problems. Much of the literature of the period, although usually of a technical nature, related to what was "correct" in accordance with truth and full disclosure. The dialog on accounting subjects covered technical, legal, and moral issues in a very sophisticated manner. A good deal of the discussion emanated from British accountants and was published in *The Accountant*, the official organ of the Institute of Chartered Accountants in England and Wales. Some American accountants also entered into the discussions, however. There was a growing sense of professional awareness among practitioners in the United States.

In an address to the delegates to the 1904 Congress of Accountants, J. E. Sterrett, a respected spokesman for American accountants, observed [7, p. 27] that in the United States " . . . the public accountant was practically unknown twenty-five years ago, and indeed his position in the community has been largely a development of the last ten years." He continued by expressing pride of membership in a profession " . . . so young, so energetic, so free from traditions that stifle, while yet maintaining well defined principles of ethics, and most of all so full of possibility for the employment of every faculty of mind and heart in noble service in the field of life." The vision he had for the accounting profession was that it must " . . . stand for the highest ideals in the life of the individual and for the slow but sure evolution of society into a state where honor and honesty shall not be mere abstraction."

Although such statements may have sounded self-congratulatory and idealistic, Sterrett also outlined the practical aspects that accountants had to face; among them was the development of a formal system of professional ethics to help the individual practitioner cope with the changing and expanding business environment. He stressed the myriad and complex problems facing accountants and urged the ". . . putting aside of all selfishness . . ." and to "work for the upbuilding of . . . [the] profession in a spirit of honesty, of courage and of common sense" [7, p. 33].

The constant reference in accounting literature to such terms as "ethics," "honesty," and "courage" might be construed as an indication that those engaged in public or private accounting might have these characteristics often challenged. Indeed, in light of business practices then extant it probably required an exceptional person to live up to the ideals envisioned by Sterrett.

To some degree the accounting profession seemed to have viewed itself in a Horatio Alger context. Such books as *Fame and Fortune*, *Brave and Bold*, and *Strive and Succeed* had in them the elements that typified much of the "inspirational" accounting literature of the period. However, many of the business practices with which many accountants had to contend might have frustrated most from attaining the "ideals."

As late as the 1920s accounting and bookkeeping texts contained at least one chapter on the subject of private books. The author of a 1923 text [14, pp. 551-52] in which the subject of private books was explained indicated that certain information in the accounts was kept secret from the public. The public included not only creditors and competitors but employees as well. Though many concerns would give out typewritten balance sheets to stockholders, few would allow others to have this information or release the details of income and expenses. Keeping accounting information secret was justified on the basis that disclosure would reduce competitive advantage, but there was also the fear that if employees knew how large profits were or what officers' salaries were, there would be petitions for increased wages.

The author also pointed out [14, pp. 551-52] that although it was the competitor and employee who were most feared, ". . . government and the public . . . are [also] feared. Sometimes there is dishonesty that they [the owners] do not wish to become known . . . . So far as the public is concerned, they are fearful that high profits will be interpreted as profiteering, and lead to newspaper publicity and ultimately to boycott." However, even at this late date there was little condemnation of the use of private books, and texts prior to 1900 absolutely supported them as a "business necessity."

Secrecy of accounting information during the last quarter of the 19th century seemed to have been a common business practice. However, those being trained in bookkeeping or accounting were taught that "In estimating the condition of a concern . . . , it is

well to know whether the books are 'truthful'; that is, whether the 'resources' exhibited on their pages are absolute or fictitious" [19, p. 202].<sup>1</sup> Business attitudes and conditions during this period made it difficult for accountants to attain truth in accounts and full financial disclosure. However, they were well aware that much of the accounting that was being practiced was not the accounting that should be practiced.

## ACCOUNTING ORGANIZATIONS

The term "accounting" is generally defined in relation to the theory and system of establishing, maintaining, and auditing the financial records of an entity. However, "accounting" is a generic term. There are various phases of accounting activity, each having its own origins, motivations, and developments. The major divisions in accounting are public accounting, private accounting (managerial and cost accounting), and governmental accounting. Within each of these divisions are numerous and highly specialized areas.

Each of these concepts of accounting have emerged from the practice of bookkeeping and then evolved to meet the special and changing need of business and government. However, the development of public accounting in the United States during the last decades of the 19th century and the early 1900s has probably been a major factor in elevating accounting, in general, to the status of a profession.

Most historical studies have imputed that improved business conditions and the large number of entities that were assuming the corporate form during the latter part of the 19th century resulted in ever larger numbers of bookkeepers and accountants being employed. However, this is a nebulous measure of professional growth. Tracing the numbers of those who held themselves out to be public or expert accountants might be a better indicator of growth.

In 1942 A. C. Littleton studied a sample of city directories that provided a quantitative basis for gauging the growth of public accounting in the United States. With a caveat that the search was selective and that there was a paucity of reliable information, Littleton was still able to chart the total number of names classified as public or expert accountants in New York, Philadelphia, and Chicago. Thirty-nine names were listed in 1875, and by 1899 the number had risen to 332 [15, pp. 9-10]. Between 1875 and 1890 the trend was slightly upward but somewhat erratic. From 1891 to 1899 the growth was rapid. The natural result of this type of increase was the formation of accounting organizations.

No serious attempts had been made by bookkeepers and accountants in the United States to form societies for their mutual benefit until the late 1870s. Most of the early organizations were located in major cities with the membership composed primarily of bookkeepers and a few who were classified as public accountants.

At least 10 such local organizations were formed during the decade of the 1880s. The first organization with national aspirations was the American Association of Public Accountants, incorporated in New York on 20 August 1878 [24, p. 11]. It was an organization by and for accountants who were engaged in public accounting.

The proliferation of the corporate form of business organization posed new problems that baffled the efforts of individual public accountants. There was quick recognition that by bringing the reasonings and experiences of different individuals to bear upon the same problems they could keep abreast of, and possibly become a potent factor in guiding, modern business practices.

Sterrett [7, p. 27] felt that it was not strange that the American accountant, ". . . who of all men was familiar with the application of . . . the thought of the conserving yet stimulating effect of mind upon mind . . . to business requirements, early sought its advantages for himself and the profession that was struggling for even a little solid ground upon which to stand." The intention of the founders of the American Association was that it should be ". . . a national organization composed of individual members practicing in different parts of the country. In their view this form of organization was sufficient, and for a time it doubtless was" [7, p. 28].

Shortly after the formation of the American Association, public accountants began to organize state societies. By 1900 societies had been established in California (1895), New York (1897), Illinois (1897), Pennsylvania (1897), and Massachusetts (1900) [24, p. 271].

The major effort of the American Association during 1895 and 1896 seems to have been devoted to securing legal recognition for public accountants. Since a large number of public accountants practiced in New York, efforts were concentrated in that state.

In 1882 a small group of men interested in bookkeeping and accounting formed the Institute of Accounts in New York City. According to Norman E. Webster [24, p. 271], the certificate of incorporation proposed to provide for "'the intellectual advancement and improvement of its members. By the discussion in its Councils of technical knowledge and commercial practice.'" The organization had few members and did not survive past 1900. However, there is evidence that several of the institute's members had been working independently to secure accounting legislation as early as 1892 [25, p. 12].

Both the American Association and the institute sponsored bills that were introduced in the New York State legislature early in 1895. Both bills were defeated. However, it is noteworthy that the designation "certified public accountant" was first used in the institute bill. A revised bill was submitted by the institute supported by the American Association, and on 17 April 1896 New York became the first state to grant legal recognition to the practice of accountancy.

Encouraged by this successful endeavor, the Pennsylvania Association of Public Accountants secured similar legislation on 29 March 1899 [20, p. 16]. After 1900 the organization of state societies and the passage of CPA legislation occurred rapidly in the rest of the states. Much of the general recognition of accountancy as a profession can be dated from the passage of CPA legislation in New York.<sup>2</sup>

## ACCOUNTING EDUCATION

There is not much evidence to indicate that the study of accountancy or bookkeeping was afforded any academic status in the United States prior to 1900. Even business and commerce was not recognized as a "legitimate" area of study at the college level until 1881 when the Wharton School of Finance and Economy was established at the University of Pennsylvania.

The Wharton School program led to a bachelor of science degree but the required courses were primarily those found in any liberal arts curriculum. Only two courses might have been considered as falling into the area of business study, Procedures in Banking and Trust and Elementary and Mercantile Law [24, pp. 163-64].

However, ". . . business schools were giving instruction, not only in the art of bookkeeping but somewhat also in the economic principles upon which the art is based" [24, pp. 121-64]. Examples of this type of school included Browne's Brooklyn Business College, Wright-School in Brooklyn, Theodore Koehler's New York School of Accounts, and the Bryant School of Accounts in Chicago. There were probably others, and some high schools may have offered instruction in bookkeeping; however, there did not appear to be any organized plan for education in accountancy prior to 1900. In many instances, if a person desired to become a bookkeeper or accountant he would try to secure a position as an apprentice to a private or public accountant, if he could afford to work for low wages or, as was sometimes the case, pay for the "privilege."

The burden of educating accountants naturally fell upon professional organizations and the American Association did devote some effort to the establishment of a New York School of Accounts. Among the reasons advanced for the justification of such a school was that there were no institutions aimed at ". . . this particularly high branch of business education . . ." It was felt that business colleges had to do with ". . . chiefly manual 'facilities,' writing, reckoning &c., those things that go to make for a good clerk, . . . [but] do not touch the essence of the subject . . ." [24, p. 186]. Further objection was made that business college instruction was "theoretical and impractical," and only distantly related to actual business problems.

The object of the school was to educate young men for the profession of accountancy and in the principles of commercial practice. A charter was secured from the New York Board of Regents in late 1892, a course of study was established, a faculty was assembled, and quarters were obtained. During 1893 seven students completed the year's course but by the end of 1894 the school was no longer in existence.

During the last decades of the 19th century professional accountancy education was also hindered by the paucity of acceptable study guides. It was not until the early 1900s that suitable books on the subject of accounting began to emerge. However, there were some efforts to improve the level of accounting thought and practice prior to that time.

A book that has been termed the first modern accounting text was essentially a new method of teaching bookkeeping. In 1841 Thomas Jones of New York [3, p. 222] published the *Principles and Practices of Bookkeeping*. "He saw financial statements rather than ledger balances as the final step in the bookkeeping cycle" and gave a clear concept as to the nature of double-entry. There is evidence that Jones's concept of the nature of double-entry had been alluded to as early as 1718; however, he was the first person to clearly explain this point of view. A. C. Littleton referred to him as a pioneer of accountancy [16, p. 35].

A later book by Jones [12] bore the subtitle "The theory of debit and credit being disentangled from particular forms, and taught throughly as a science." There was also the indication that he had taught the subject for 20 years. Jones [11, p. 521] acknowledged that experience would expand expertise but he maintained that ". . . you cannot practice bookkeeping until you understand its principles . . ." His approach to instruction was based upon understanding principles rather than upon teaching inflexible rules.

The advanced concepts of Jones and B. F. Foster [8] were generally rejected by their contemporaries. However, like their contemporaries, they were basically interested in bookkeeping as a "science" and did not stress "business education." Subsequent bookkeeping texts, prior to 1900, seemed to follow one of two tracks: a technical approach based upon strict rules or an approach that was a mixture of theory and practice.

S. S. Packard and H. B. Bryant's text [19, p. 106] stressed "practical exercises" and "drill." The "science of accounts" was reduced to six "principles" of when each type of account should be debited or credited. W. H. Sadler and H. M. Rowe's text [22] adhered to the concept that "correct practice necessitates correct theory." Exercises were used but the object of each account was explained. There was also a section on simple statement preparation about which the bookkeeper should be prepared to answer such employer questions as "Have I been doing a paying business? State Reasons." The general criticism of the American Association seemed



to have had validity -- in the United States prior to 1900 education for accountants which would prepare them for the new and complex problems that were emerging was virtually nonexistent.

#### SUMMARY

During the last quarter of the 19th century rapidly changing business conditions and the increase in the use of the corporate form were causing new and complex problems for which the average bookkeeper and accountant was not prepared. Although there was much discussion of accounting problems in relation to truth in accounts and full financial disclosure, actual practice did not readily absorb new ideas.

Accounting, in general, became identifiable as a respectable occupation and public accounting started to emerge as a profession. As common interests and problems were recognized, accounting organizations were formed. During this period, the formation of public accounting groups and the passage of CPA laws gave accountants a basis upon which to build.

As accountants became more conscious of a professional identity they also became concerned that there was little or no formal education available to the aspiring accountant. The only training generally available was through business colleges or correspondence courses and such training was usually in the technical aspects of bookkeeping.

Though there were still many problems to be overcome, by the end of the 19th century accountancy had secured a reasonably solid foothold as a profession. "The twentieth century seems to have been a period of consolidation . . ." [6, p. 38] for American accountancy.

#### NOTES

1. The authors indicated in the preface that the book had been prepared and privately published for use in common and higher schools around 1860.

2. From about 1940 to the present much material has been published on the origin of accounting in various states. For example, see [13 and 10]. See also [5].

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