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BAIB 2
Financial Accounting – Laurence Took

The history of accounting in the United States of America

The United States of America has more accounting rules and practises in its standardisation than can be seen in the United Kingdom, or than in any other country in the world. It would be assumed, though, that as the United Kingdom and the United States of America have strong economic and historical links that the systems of Financial Reporting used in both countries would be similar, however the legislation employed in America means that this is not the case. The Financial Accounting Standards Board of the USA, who are responsible for setting accounting standards make sure that the standardisation and disclosure of information is at its greatest in their country. The standards set by this board are not only influential in their own country but also in other countries around the world, as they provide harmonisation for other countries and businesses that act within the USA and follow their lead.

The accounting practises of the USA, although are now more regulated than those in the U.K, the original principles were imported to the United States of America by early pioneers from the United Kingdom who established business practises in the USA. These principles are now referred to as 'US GAAP' this is short for the US general accepted accounting principles.

The origins of the American Association of Public Accountants began in 1886, and the profession of Accountancy was recognised by a 1896 New York State law which established the Certified Public Accountant, parallel laws followed in other states. In the early years the regulating of accounting practises lied in the hands of the individual accounting firms, these were not often disclosed to outside interests, however in 1957 the American Institute of Certified Public Accountants (AICPA) emerged and this brought together the public auditing of accounts.

The Stock Market crash of 1929 left the finance industry severely damaged, this lead to fundamental changes in the USA economy and the way in which business was practised. After the event it was found that one of the causes appeared to be that information was being kept inside the firm, it was also apparent that different practises were being used in the financial statements that were produced. There became an evident lack of confidence within the financial industry and criticism of the practises occurred. In 1930 following this event the AICPA began working with the New York stock exchange to develop accounting principles that would be used by all companies that traded on the New York Stock exchange, its initial emphasis was on disclosure. These were then enforced at government level by the Securities act of 1933, which formed the Securities and Exchange Commission, a regulatory agency, and the Securities Exchange Act of 1934.

In the 1940's and 1950's there was produced the Accounting Research Bulletins, these were developed by the AICPA, however disagreements with the SEC over the

legislation led to the formation of the Accounting Principles Board in 1959. Yet the ARB survived, the format became the ARB43, this still exists today.

The Accounting Principles Board found that one of its first tasks was to produce what became known as the Accounting Research Studies with a series of their own opinions, these did not dispel the problems which had existed previously between the agencies, and the SEC were often dissatisfied with the opinions expressed by the APB, it was felt that they were not exposed enough for comment and that some problems that arose took too long to solve.

In 1952 it was recommended by the Wheat committee that a Financial Accounting Standards Board be formed. Unlike the APB it was recommended that there be a wider range of professions not just formed of accountants, this can still be seen today. The Financial Accounting Standards Board was guided in its work by a series of Statements of Financial Accounting Concepts (SFAC's), these were issued in the late 1980's. they stated that company's annual report and accounts must be made up of a consolidated income statement, a balance sheet and a profit and loss account, the statements are generally detailed with complex notes. But, in contrast to many other countries parent company financial statements are not provided with their subsidiaries. The FACB believe that outside interests must clearly be able to see the reported monetary gains and outgoings between one financial period to another, they have an open view as to what must be available.