

WILLIAM A. PATON

# STUDIES IN THE DEVELOPMENT OF ACCOUNTING THOUGHT

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STUDIES IN THE DEVELOPMENT OF  
ACCOUNTING THOUGHT VOLUME 22

**WILLIAM A. PATON:  
A STUDY OF HIS  
ACCOUNTING THOUGHT**

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INVESTOR IN PEOPLE

*To our families, whose patience, encouragement, and understanding compelled us to finish what seemed an imposing task, we dedicate this book.*

*To our readers, we also dedicate this to you in the hopes that it will help you understand and appreciate one of the great individuals who helped to make accounting the respected profession it is today.*

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## ABSTRACT

For more than 70 years, William A. Paton contributed his considerable energy and knowledge to the development of accounting thought. He wrote over 100 articles and was a principal contributor to, and editor for, *The Accounting Review* and *Accountants' Handbook*. Paton was a member of numerous honorary and professional societies, and on scores of occasions, Paton appeared as an expert witness at (or testified before) Congressional committees and both federal and state courts and commissions.

Paton was one of the early accounting educators to express the high purpose of accounting and its importance in the university. He believed that an accountant's education had to go beyond the education provisions of the state Certified Public Accounting (CPA) laws. The significant development of modern accounting education programs, as well as the prestige accorded to them, can be largely traced back to the high aims of such professionals as Paton. He was among the early theorists in accounting to argue that just listing the assets and liabilities of a company was not sufficient. Rather, there had to be a coherent, theoretical structure that would guide the accountant in preparing financial statements.

Paton was an active participant in the professional accounting organizations of his day. Paton was a leader in urging early societies to conduct research to develop a coherent body of knowledge and in developing the first issues of *The Accounting Review*. That beginning, along with the contributions of such notables as editors Eric Kohler (1928–1942), Ananias Charles (A.C.) Littleton (1944–1947), Frank Smith (1950–1959), and Robert Mautz (1960–1962) helped make the *Review* into the outstanding publication it is today.

Paton's thoughts on accounting were influenced by many factors, including his family, his background in economic theory, his work in the public utility sector and with the War Trade Board, and such accounting luminaries as Thomas Jones, Charles Ezra Sprague, and Henry Rand Hatfield. In studying a man such as Paton, one realizes that certain basic propositions, postulates, and assumptions influenced the man and shaped his thinking and philosophy. As early as his first professional textbook, *Accounting Theory*, Paton expounded his postulate approach and his basic assumptions.

For this huge body of work, Paton received practically every major honor an accounting educator could receive. He was one of the three chosen to enter the Accounting Hall of Fame, in its first year; he was also chosen as the Dickinson Lecturer in Accounting in 1940 – the first academic to be so honored by Harvard

(Zeff et al., 1979). In 1944, the American Institute of Certified Public Accountants (AICPA) established an award for distinguished service to the profession, including notable contributions to the accounting literature. Paton was one of the three first-year recipients of the gold medal and citation. Perhaps Paton's most significant honor came in 1987 when, on the occasion of its 100th annual meeting, the AICPA named Paton the Educator of the Century. Paton arguably contributed more to the development of accounting thought than any other person in the twentieth century.

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# LIST OF ABBREVIATIONS

AAA	American Accounting Association
AAPA	American Association of Public Accountants
AAUIA	American Association of University Instructors in Accounting
ADPU	Arkansas Department of Public Utilities
AIA	American Institute of Accountants
AICPA	American Institute of Certified Public Accountants
APB	Accounting Principles Board
APBO	Accounting Principles Board Opinion
ARB	Accounting Research Bulletin
ARS	Accounting Research Study
CAP	Committee on Accounting Procedure
CPA	Certified Public Accountant
FASB	Financial Accounting Standards Board
FEE	Foundation for Economic Education
FIFO	First in, first out
FSPAA	Federation of Societies of Public Accountants in America
LIFO	Last in, first out
NACA	National Association of Cost Accountants
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards

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# CHAPTER 1

## INTRODUCTION

On April 26, 1991, the accounting world said goodbye to William Andrew Paton. For more than 70 years, Paton had contributed his energy and knowledge to the development of accounting thought. He had written over 100 articles for such publications as *The Accounting Review*, the *Journal of Accountancy*, the *Michigan Business Review*, and numerous other journals. He was a principal contributor to, and editor for, both *The Accounting Review* (1926, 1927, and 1928) and the *Accountants' Handbook* (1932 and 1943 editions).

Paton was a member of the American Institute of Certified Public Accountants (AICPA), the American Economic Association, the American Accounting Association (AAA), the Mont Pelerin Society, and numerous other honorary and professional societies. He was a member of Phi Beta Kappa, Beta Alpha Psi, Beta Gamma Sigma, and Phi Kappa Phi. Paton appeared as an expert witness or testified before Congressional committees and both federal and state courts and commissions, on scores of occasions.

For the AAA, Paton served as secretary–treasurer (1920), vice president (1921), and president (1922). He also served with Littleton as coresearch director of the AAA (1937–1939). He was a member of the AICPA's Special Committee on Development of Accounting Principles, and a member of the Committee on Accounting Procedure (CAP) (1938–1950). Paton was a talented and energizing teacher who won the enduring praise and admiration of his students. In fact, Paton (1971a) estimated that he had had contact with between 23,000 and 25,000 individual students during his teaching career,<sup>1</sup> and that many of those students went on to become notables in the accounting profession and in the corporate sector.

Paton distinguished himself early. He was among the early accounting theorists to argue that just listing the assets and liabilities of a company was not sufficient. Rather, he argued, economic factors (such as inflation and interest rates) must also be considered when presenting the financial statements of a company. Paton was highly successful in expanding on and enhancing the works of such nineteenth-century accountants as Jones and Sprague.

Paton also wrote, together with Littleton, *An Introduction to Corporate Accounting Standards*, which remains today one of the most significant writings in the accounting literature. Storey (1981) believes that in the years following the

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<sup>1</sup>Three members of the Paton family are cited in this work. William Paton is cited as “Paton,” William Paton Jr is cited as “Paton, Jr,” and Robert Paton is cited as “Paton, R.”

publication of this monograph, accounting practice had developed substantially along the lines specified therein, and that “rationalization and theory consistent with the monograph have been widely used in authoritative pronouncements” (p. 57).

Yet, with all this recognition and all these honors, when Paton (1971c) was asked of what he was most proud, his answer was, “other than my family, it’s my students”. To demonstrate this, he took from his files one of the many letters he had received from students and showed it to the interviewer. It was a letter from an anonymous student, and it was dated March 21, 1948. It read,

Dear Prof. Paton,

I know that you don’t need any morale bolstering or “pats on the back” from your students; also those anonymous letters of the “Angelo Patri” type should not cause you too much concern.

However, I desire to inform you that I feel deeply privileged “to sit at the feet of a real master,” and to be associated with a teacher possessing your keenness and productivity.

Quite apart from your intellectual superiority, many of us value your intensely human qualities which stamp you as an extraordinary person indeed.

Please accept this sincere statement in humble appreciation from a 113 student who is presently taking his first course from you, and hopes for a good many more.

An admiring student who is definitely among the majority of his classmates in connection with the above opinion – perhaps a 95% majority. (Anonymus, 1948)

That Paton, who had by this time in life received so many high honors from the major accounting organizations, considered such a letter from a young accounting student one of his highest honors, reflects the importance Paton placed on giving his students a quality learning experience.

Because of this dedication to his students and the profession, shortly after his death, the editor of *The Accounting Review* dedicated the entire January issue to Paton’s memory. As an additional tribute to this considerable body of work, in 1987 – on the occasion of its 100th annual meeting – the AICPA named Paton the Educator of the Century.

However, for those who loved, admired, and respected him, Paton had other names and titles – Father, Husband, Brother, Grandfather, Professor, Colleague, Mentor, Friend. Many, many friends! Those friends saw him through numerous hard times throughout his career because in hindsight, we tend to see only Paton’s many successes. But he also had setbacks. Those setbacks might have caused a weaker person to give up and concede defeat. Defeat, however, was never “the Paton way.”

These setbacks were of both a personal and professional nature. At a young age, he saw his sister die of an infection that was traced back to someone throwing a dead cat down the family well. Later, his own child was taken from him at an early age (Paton, R., 1971). Paton endured the disdain of many who disagreed with his strong positions on accounting and economics; yet, through it all, Paton endured, and came back fighting even harder. Paton (1952a) often described himself as “hardheaded,” and frequently wrote that it was important to “use a bit of hardheadedness” (p. 4).

So how did Paton become the AICPA Educator of the Century? He did so by adhering to his principles, yes, but also by seeking to understand the positions of others and by seeking compromise and a common cause. Carl Thomas Devine (Taggart et al., 1992) quotes Paton as saying that:

Some critics call me stubborn and dogmatic while others call me wishy-washy.” Devine opined that he had to agree with both positions, saying that Paton was as “Stubborn as two Missouri mules. (p. 10)

Paton wanted things to be done right, but he also believed in the scientific tradition and kept an open mind until the evidence manifested itself.

Perhaps because of this combination of stubbornness and open-mindedness, Paton was recognized worldwide as a renowned authority on theoretical accounting and a pioneer in the development of accounting education. He earned a well-deserved reputation as an eloquent speaker, forceful defender, and sharp critic.

## IMPORTANCE OF UNDERSTANDING OUR PAST

Hatfield (1924) wrote of the plight of the “poor accounting professor” in the university. He said at that time that:

I am sure that all of us who teach accounting in the university suffer from the implied contempt of our colleagues, who look upon accounting as an intruder, a Saul among the prophets, a pariah whose very presence detracts somewhat from the sanctity of the academic halls. (p. 241)

Hatfield, who had the distinction of being the first person to secure a full-time professional appointment in accounting as an associate professor at the University of California at Berkeley (Tysiack, 2012), was speaking of the lack of recognition of accountants as professionals in both the academic and professional worlds. With these words, Hatfield essentially repeated similar words uttered over 80 years earlier by Jones (1841), who felt that

the theory of merchants’ accounts seems to be little appreciated as a subject of study, and is commonly treated by those who have given it the least attention, as too simple to demand any serious effort. (p. iv)

Hatfield emphasized that this indifference and contempt was found not solely among academics, but was rather “well-nigh universal.” Hatfield described many reasons for this contempt, but he focused on one point in particular: the small body of published history in the field of accounting.

Accounting is known to be an ancient art. The Pharaohs had scribes, and the rich merchants had bookkeepers – but what of the history of these early accountants? Practically nothing! The first-known published book on bookkeeping was *Libro dell’arte della mercatura (Book of the Art of Trade)*, written by Benedetto Cotrugli of Ragusa in southern Dalmatia in 1458. The book was primarily a defense of fifteenth-century commercial trade practices, but it was important to the accounting profession, because – as many argue – it included the first published mention of double-entry bookkeeping (Yamey, 1994).

It was Luca Pacioli (1494), however – some 35 years after Cotrugli – who is generally credited with writing the first highly regarded text to describe the work

of the accountant – namely, *Summa de Arithmetica, Geometria, Proportioni et Proportionalita*. Even so, Pacioli himself was not an accountant, but a mathematician, and his work was a mathematics rather than an accounting text. Still, Pacioli was a highly regarded man in his day, and a contemporary of Leonardo da Vinci. Da Vinci even worked with Pacioli on a later book. What is important to the accounting world is a small part of the text, titled *De Computis et Scripturis*, that describes accounting as it was then practiced in Northern Italy (Hatfield, 1924).

The third significant book on accounting was a German text written in 1518 by another mathematician, Henricus Grammateus. Grammateus's *Ayn New Kunstlich Buech (A New Skill Book)* was significant, because many consider it the first text to describe the use of the plus and minus signs for adding and subtracting. According to Inoue (1978), like Pacioli, Grammateus was a highly regarded professional in his day, and his application of math to the work of the bookkeeper was a watershed moment in the history of accounting.

According to Hatfield (1924), the next significant text in bookkeeping was written by Jerome Cardan. (Hatfield used the English version of his name; Cardan's actual name was Girolamo Cardano.) Hatfield describes Cardan as “that picturesque scapegrace and brilliant scholar, astrologer, physician, scientist, mathematician, professor of medicine, first at Pavia and later at Bologna” (p. 247).

There is no doubt that Cardan was a unique individual. While everything Hatfield says is true, he nonetheless fails to point out the “other side” of Cardan: he went to prison for poisoning his wife, was accused of heresy by the church, and had a significant gambling problem. Still, he was a great mathematician, and much of his work in the area of probabilities (which he perhaps studied to enhance his gambling odds) and in solving cubic equations was commonly recognized. For example, the solution to cubic equations is commonly known as Cardano's formula. Like Pacioli and Grammateus, Cardan combined mathematics and bookkeeping in his work (Morley, 1854).

After Cardan, there was a dearth of significant accounting and bookkeeping literature for several hundred years. According to Brown (2014), only about 150 writers on the subject of bookkeeping had emerged before the year 1800.

Accountants came to the United States early. Previts and Merino (1998) quote Alistair Cooke, a popular US journalist, who said that “when Columbus set sail, among the select members of his crew was an accountant designated by the Spanish monarchs to supervise the ‘books’ of the venture” (p. 11).

In the United States, a formalized accounting profession can be considered to have begun in 1886, when a group of individuals met in New York and authorized the appointment of a committee to draft rules and regulations regarding the formation of a professional association. That group would later, in 1887, form the American Association of Public Accountants (AAPA) (History of the AICPA, 2017). The stated objective of this body was to “associate into a Society ‘the best and most capable public accountants practicing in the United States’” (Brown, 2014, p. 251). Five years later, in 1892, another organization was formed, called the Institute of Accountants. This second body, however, considered itself a scientific body that only partially comprised public accountants (Brown, 2014).

Attempts to create a formal accounting education program can be traced back to 1892, when the AAPA created a “school of accounts” in New York under the Regents of the University. This attempt was ultimately a failure, but it set in motion a process that brought about, within a few short years, a number of accounting programs in the United States.

The first professional certification act for Certified Public Accountants (CPAs) was passed in August 1896 in New York State. It provided that,

any citizen of the United States or person who has duly declared his intention of becoming such citizen, who resides or has a place of business in the State, is over twenty-one years of age and of good moral character, and who shall have received from the Regents of the University a certificate of his qualifications to practice as a public expert accountant, shall be styled and known as a Certified Public Accountant, and no other person shall assume such title or use the abbreviation C.P.A. or any other words, letter, or figures, to indicate that the person using the same is such certified public accountant. (Brown, 2014, p. 277)

A number of states quickly passed similar laws, including Pennsylvania and Illinois (1897), Maryland (1901), Washington (1902), and California and New Jersey (1903).

In an attempt to further the development of CPA laws, the Federation of Societies of Public Accountants in America (FSPAA) was formed in 1902 in an attempt to accomplish, among other things, federal recognition of the CPA certificate. Shortly thereafter, in 1904, Paton’s home state of Michigan incorporated the Michigan Association of Public Accountants and joined the FSPAA. For the next 10 years in Michigan, the pros and cons of legally recognizing the CPA certificate were debated before the CPA law was eventually passed, in 1914 (see, AAPA, 1914).

Coincidentally, during this time, Paton enrolled in college with a primary interest in economics. Paton (1971c) earned a bachelor’s degree in 1915 – just a few months after the *Michigan Act* was passed, when he said there was much “fanfare and discussion” of whether accounting was truly a profession. Whether these discussions impacted Paton’s decision to change his thinking and move to accounting from economics was not something that even Paton could answer. He pointed out that another significant discussion of the day was the creation in 1913 of the federal income tax, as well as all the problems (and opportunities) it offered. Whatever the cause, it was an exciting time for a young man to be considering a career, especially one that seemed to offer so many new and challenging tasks.

Discovering relationships such as this and remembering the important events of history is an important part of any profession’s personality and uniqueness, and this history certainly impacts our thinking. Nonetheless, it was only around the beginning of the twentieth century that the importance of recording our history became apparent. Previts et al. (1990a) state that many significant accountants have had their lives chronicled. These include such luminaries as Andrew Barr (Zimmerman, 1980), Carman Blough (Cooper, 1982; Scott and Ward, 1982), Kohler (Mautz and Previts, 1977; Cooper and Ijiri, 1979), Littleton (Bedford and Ziegler, 1975), Kenneth MacNeal (Zeff, 1982b), James McKinsey (Flesher and Flesher, 1985), Robert Montgomery (Roberts, 1975), and John Raymond Wildman (Previts and Taylor, 1978). The achievements that these

studies document shine a light on the accounting profession and give it that sense of history so essential to any profession. Paton was certainly one of the great accountants of the twentieth century, and his thoughts, his history, his beliefs, and his achievements deserve to be preserved for future accountants.

## PURPOSE OF STUDY

This study seeks to continue the efforts initiated by accountants such as Hatfield (1924), who read before the American Association of University Instructors in Accounting (AAUIA) a paper designed to serve as an historical defense of book-keeping. Hatfield wanted to show that accounting was viewed by others in the academic environment as a “brash outsider,” and as a program that did not deserve recognition as an academic endeavor. This paper laid out Hatfield’s attempts to show the legitimacy of accounting as a university course of study. He pointed out that an accounting program required the respect of others, but mostly it needed self-respect. Hatfield said that there were three elements that, while they could not prove respectability, could at a minimum establish some degree of respectability. These elements were:

1. The profession’s parentage and lineage.
2. The company the profession keeps.
3. The service the community receives from the profession.

Hatfield’s paper is now a classic piece of accounting literature and was successful in attracting many promising young women and men to the accounting profession.

Since 1924, the accounting profession has come far and achieved well-deserved recognition as both an academic endeavor, and a profession vital to all businesses. The AICPA and the AAA have strived constantly to ensure that the citizenry is aware of the services provided by the profession. Accountants such as Michael Chatfield, Dale Flesher, Littleton, Edward Peragallo, Gary Previts, Basil Yamey, and Stephen Zeff – to name but a few – have been painstakingly detail oriented in preserving the parentage and lineage of which Hatfield spoke.

Still, an important component of the profession’s heritage and future are dependent on “the company one keeps” – the men and women whose thoughts have made their contribution to the profession’s development, as well as those who carry on its development. The concepts and postulates of accounting found their beginnings in the accretion of the thoughts, ideas, and experiences of many of these individuals. The knowledge of accounting that exists today has been, to a great extent, acquired through the efforts of these men and women.

Paton was certainly one of those whose company we were proud to keep. Throughout his academic and professional career, he enthusiastically contributed to many aspects of accounting. The purpose of this study, therefore, is to identify and discuss how Paton’s thoughts contributed to the accounting profession and

to add to the discussion of Paton's positions with respect to the development of accounting theory and the accounting postulates.

## ORGANIZATION OF STUDY

This manuscript comprises eight chapters, including this introductory chapter. Previts et al. (1990b) suggest that thought-development studies should consider environmental factors and individuals who may have influenced thought over time. Accordingly, Chapter 2 offers a biography of Paton that begins with a description of his life, with the overall aim of showing how his family, friends, associates, faculty peers, and students influenced him. Additionally, that chapter describes how Paton influenced his peers and students, and why they bestowed many honors on him throughout his life.

Chapter 2 begins with a description of Paton's father Andrew, from whom Paton received his middle name. Andrew and his wife Mary were very religious, which no doubt influenced Paton's thinking. This section also describes Paton's two brothers and two sisters, one of whom died at a young age. Paton's early childhood is then discussed, as are the neighbors and friends with whom he grew up. A description of Paton's schooling is discussed, showing that much of Paton's knowledge came about through self-study and a strong desire to learn. Paton's college years are briefly discussed in Chapter 2 and discussed in greater detail in later chapters. Paton's marriage to Mary Sleator, as well as the birth of their three children, completes the first section of Chapter 2.

The second section of Chapter 2 discusses the early faculty peers that influenced Paton and his teachings. Consideration is given to why Paton chose accounting as his teaching profession, given that he had had such an early interest in economics. Paton's teaching relationships with professionals such as Russell Stevenson, David Friday, Frederick Taylor, and Hatfield are described to show the influence these men had on Paton.

The third section of Chapter 2 discusses the significant influence that Paton's students had on him. As mentioned, Paton taught, by his own reckoning, somewhere between 23,000 and 25,000 students, some of whom became great leaders in industry and education. He chaired the dissertations of such men as Devine, Sidney Davidson, Homer Black, and Daniel Sweeney. Some of his students also came to lead some of the largest corporations in the United States, such as Chrysler and General Motors. Paton prided himself on remembering his students' names, and could even recall those of students whom he saw years later.

The fourth section of Chapter 2 examines specifics in describing how Paton influenced so many twentieth-century leaders. As seen in personal communications, interviews, and testimonials from many of these leaders, Paton is shown to be an educator who truly made a difference in the lives of his students.

Chapter 3 discusses the Paton philosophy and how environmental factors affected his thoughts. The first section of this chapter addresses the various approaches to accounting, including practical, deductive, inductive, and

ethical approaches, among others. The section concludes with a discussion of the approach used by Paton.

Chapter 3 then discusses the various influences that worked to develop the Paton philosophy. These influences included such factors as the influences of corporations, taxes, economics, and regulatory agencies. Social influences, organizational influences, and other influences are also discussed.

Chapter 4 delves into Paton's work in developing accounting postulates. This chapter attempts to show how Paton was able to adapt and amend some of the thoughts of such men as Jones and Sprague with regard to such basic assumptions of accounting as the entity concept, the going concern concept, the organization of the balance sheet, representations of the balance sheet, the stability of the monetary unit, the cost concept, how cost gives value, the recognition of revenue, the uniformity of depreciation, and the valuation of inventory. The significance of these assumptions, as well as a comparison of those assumptions to the basic postulates of Maurice Moonitz (1961), comprise the majority of this chapter.

Chapter 5 describes some of the many contributions Paton made to accounting education. One can see Paton's thoughts through his writings and speeches, and how critical he felt the development of the accounting curriculum was. Just as Sprague wrote of the importance of teaching "with the 'why' rather than the 'how'" (Loomis, Introductory Notes to Sprague, 1922, p. xv), Paton felt it important to avoid the expediency of memorization in the lower division. Through his work as chair of the Education Committee of the AICPA, Paton was able to publicize his views and have them raised for public discussion.

Next, Chapter 5 deals with Paton's concerns regarding the new directions accounting education was taking. These directions may have been due to the Gordon and Howell (1959) and Pierson (1959) studies, which condemned vigorously the method of teaching accounting and business, and which continued to be a topic of significant discussion 60 years later.

The third section of Chapter 5 deals with continuing education. In the early days of the twentieth century, the education background of accountants was minimal. A 1926 study found that most accountants had only a high school diploma, and that many did not even have that. To improve the quality of these early practitioners' education, 10 prominent accountants of the day, including Paton, developed a textbook designed to enhance this education. This section of Chapter 5 deals with Paton's contributions to this initiative.

The fourth section of Chapter 5 deals with the teaching experiences of Professor Paton. Relying primarily on personal letters from former students, Paton's unique teaching methods are examined. By his own admission, Paton took a strong interest in undergraduate students, believing that it was among them that the greatest need existed, and to whom he could make the most significant contribution. Several examples of where Paton took a personal interest in the student and went "above and beyond" what a teacher was required to do are described by former students.

Perhaps even more important than Paton's teaching method is the effect it had on his students. The fifth section of Chapter 5 deals with this effect. Here, Guy S. Peppiatt, Maurice Hahn, H.G. Bixby, Herbert Taggart, Williard Stone, and

Sydney Davidson all relate some of their memories of sitting in a classroom and listening to a Professor Paton lecture.

The sixth section of Chapter 5 deals with Paton's textbooks. Paton wrote several textbooks with such coauthors as Stevenson, Robert Dixon, William Paton, Jr, and Samuel Hepworth. While Paton's textbooks were not always marketing successes, they almost always received critical acclaim.

In this section, Stevenson reveals that Friday was to have been the third author of Paton and Stevenson's text, but the decision was ultimately made to remove his name as an author. This section of the study includes an in-depth discussion with respect to the textbooks.

Paton was not merely a prolific writer: he was also sought after as a speaker. By his own estimate, Paton gave several hundred talks before professional accounting societies, trade association meetings, company employee groups, parent-teacher associations, tax conferences, college chapel gatherings, and other groups (Taggart, 1964, p. xiii). In the seventh section of Chapter 5, some of Paton's friends and students offer their reflections on, and descriptions of, Paton's speaking style.

The final section of Chapter 5 relates to Paton's influence on the University of Michigan. Through his writings, teaching, speeches, and positions in professional societies, Paton brought fame and prestige to the university. This section discusses how Paton's fame was both a blessing and a burden to the school.

Chapter 6 deals with Paton's contributions to various academic and professional accounting organizations. The first section of this chapter discusses Paton's involvement with the AAUIA. The Association's third meeting was the first to which Paton attended and he clearly impressed such attendees as Hatfield and Hiram Scovill, because at the fourth meeting, Paton was elected secretary-treasurer and at the fifth, he was elected president. The second section of Chapter 6 continues this discussion and examines the attempts (and counter-attempts) made to broaden the appeal of the Association, through a name change. Chapter 6 next describes Paton's work with *The Accounting Review*. Many credit Paton with almost single-handedly producing the early issues. This section describes the many different challenges Paton faced in developing those early issues.

The fourth section of Chapter 6 describes the broader attempts by the AAA to enhance accounting research. Many early researchers contributed to this effort, but there was general concern that progress was too slow. When Paton was selected as the first research director of the association – with Littleton as the assistant research director – a number of significant publications were developed, with none more prominent than Paton and Littleton's monograph titled *An Introduction to Corporate Accounting Standards*.

The fifth section of Chapter 6 delves further into the Paton and Littleton monograph. Paton did not agree with many things in the monograph, but apparently felt that something had to be developed, and he was therefore willing to compromise. The history of the development of the monograph, as well as what many consider to be its strengths and weaknesses, is discussed.

The sixth section of Chapter 6 deals with Paton's involvement with the AICPA. Paton received his first major committee assignment in 1934, when he was selected to chair the Committee on Education. Because of this chairmanship, Paton automatically became a member of the CAP, to which he made a substantial contribution. This section also describes Paton's work with the CAP, one of the more significant committees in twentieth-century accounting.

Chapter 6 ends with a brief discussion of Paton's involvement with the National Association of Cost Accountants (NACA). Paton spoke to this organization on many occasions; however, most of the speeches were extemporaneous and thus are not available for review. This section does, however, examine one significant speech made to the organization in 1934.

Chapter 7 deals with a discussion of Paton's nonteaching activities. Paton was more than just a teacher, and the first section of Chapter 7 describes many of those extracurricular activities. Paton was a founding partner of "Paton and Ross," which was later sold and became "Briggs and Icerman, CPAs." Paton also served as a consultant for many private companies and government agencies, and he was especially active in the public utility industry.

The second section of this chapter deals with Paton's interest in economics and how it was the "first love" of his professional life. This section demonstrates how Paton believed that economics is the foundation of accounting; this section also discusses the various economic misconceptions he felt influenced people in both their professional and personal lives.

In the third part of Chapter 7, Paton ties accounting into the management function and shows how accounting is an aid in such endeavors as make-or-buy decisions. The section also addresses how Paton felt the ways in which accounting's capacity to serve management was being obstructed.

Paton also had an interest in the subject of the salaries of proprietors and managers, especially with regard to stock options. The fourth section of Chapter 7 discusses those views, especially with respect to the underlying problems in arranging option terms.

The last section of this chapter examines Paton's strong opinions vis-à-vis politics. There is ample evidence to suggest that his thoughts in this area affected his view of accounting principles. Paton often described himself as a "Jeffersonian Democrat" who loved his country dearly but worried about some of the directions in which the country was headed. Paton served as an elected council member of the city of Ann Arbor and learned first-hand of some of the problems that the government faced. In his later years, he wrote profusely on these problems, which are examined in this section.

Chapter 8 consists of a summary of Paton's many honors and awards, and also features a discussion on the Paton legacy and how he is remembered through the filter of time.

## STUDY LIMITATIONS

Throughout most of his life, Paton dedicated his efforts to almost every area of accounting. In this monograph, the authors provide a general synopsis of Paton's

efforts; however, given the depth and breadth of Paton's work, they have not attempted an in-depth analysis of all his contributions. While one of the authors had the opportunity to meet with the subject on more than one occasion before his death, Paton's death – as well as that of many of his associates, students, and friends – limits the authors' ability to pursue topics that are more pertinent today. Furthermore, Professor Paton lost many of his papers when he moved from his office after retiring at the mandatory age of 70, in 1959. Offsetting these limitations are the excellent resources at the Patterson School of Accountancy Library at the University of Mississippi, whose assistance is gratefully acknowledged.

Another limitation of this study is that Paton usually preferred to speak extemporaneously. He felt that when he gave a prepared speech, he did not come across as genuine as he did when he spoke passionately and "from the heart." Accordingly, the vast majority of Paton's speeches were never recorded and are lost for future generations. This study therefore depends heavily on the memories of those who heard the speeches, to recall their content and delivery.

As a final limitation, while every attempt has been made to amass the writings of Professor Paton, even Paton himself could not say he had a complete list of his works. Paton (1971b) once stated in a letter that he had written "about a score of books and more than 100 articles" (p. 1), and provided to one of the authors a list of his works to that date, "as best he could determine." He freely acknowledged that there was no way of knowing whether the list was complete. Paton's writings since 1971 have been searched through a variety of archival and online resources; however, it is impossible to be certain that the list is complete.

## METHODOLOGY

This study made use of the following materials:

1. The various publications of Paton.
2. The meeting minutes of various committees on which Paton served.
3. An interview and various communications with Paton, from 1971 to 1972.
4. Interviews with family, friends, coworkers, and students.
5. Interviews with other professionals who could speak to Paton's contributions to accounting thought.
6. Memoranda, lecture materials, personal communications, speeches, and other unpublished materials.
7. Archival searches of published material by other researchers.

The unpublished materials were obtained from a variety of sources. The Library of the AICPA (now housed at the University of Mississippi) provided committee meeting minutes, as well as memoranda and a variety of published and unpublished materials. During his lifetime, Paton was very generous in making many of his personal papers available, even though many of his other papers have been lost. The AAA was also kind in making available many of the resources it had on the early days of accounting.

While still alive, Paton – along with members of his family and his colleagues, acquaintances, and former students – made themselves available for interviews with

one of the authors. Additionally, many prominent individuals in the accounting practice and in accounting education wrote letters describing their experiences with Paton.

The purpose of this monograph is to examine Paton's thoughts, to determine their influence on the accounting profession. To the maximum extent possible, events are presented in chronological order; however, this is not always possible in a study such as this. By adhering as much as possible to a chronological order, it is hoped that Paton's accomplishments in the accounting profession will be shown in the proper perspective, and that in the final outcome, the overall picture of Paton is complete.

For all bodies of knowledge, thought and theory evolve slowly over time and it is no different for accounting knowledge. Accordingly, it is impossible for researchers to determine exactly what an individual's contribution to a body of knowledge is, or even to ascribe to an individual a certain thought or concept. An individual might acquire a concept or an idea from another individual, without realizing he or she has done so. Paton eagerly sought solutions to problems and freely admitted that he adopted concepts from others. As an example, many individuals (see, e.g., Chatfield, 1977) identify Paton with entity theory development in the United States, but Paton certainly did not originate this concept. Rutherford (2016), for example, states that with regard to entity theory, "numerous antecedent expository works dating back over many years can be identified in the USA and Europe" (p. 128). In support of this contention, Rutherford cites as an example the work of Littleton (1933, pp. 193–203).

However, regardless of whether he was first to make or use these assumptions, Paton was in the forefront of attempts to specifically state some of the basic postulates of accounting and formulate them into a coordinated set. Furthermore, Paton never claimed to have originated these assumptions. As an example, Paton felt that compound interest procedures were useful in accurately determining long-term debt, and yet he freely credited these thoughts to Lewis Carman, especially with regard to the depiction of unaccumulated discount (see, for instance, Carman, 1937a, 1937b).

In numerous areas, one sees the impact of Paton's thought – namely, goodwill, treasury stock, and asset and plant accounting, etc. Did Paton originate these ideas? In many cases, the answer is "no." However, the critical thing to bear in mind is that he brought them to the forefront, where they could be examined and discussed. Paton was also willing to learn about and examine those concepts that initially appeared to be incorrect. As will be seen, Paton's attitudes on many subjects changed over time. For example, Paton's attitude toward "last in, first out" (LIFO) evolved over his lifetime. At first, he seriously disagreed with the concept, but eventually came to see the benefits it could offer.

Many called Paton a theoretician, and certainly he was. Many also said he was not practical. Yet, throughout his life, Paton worked to show a clear relationship between sound action and clear thinking. As Paton (1952a) once asserted, "logic and expediency are seldom at odds" (p. 3).