A. C. Littleton
1887–1974
A. C. LITTLETON passed away on January 13, 1974, and the world of accounting lost one of the founders of its intellectual base. As a scholar and not a practitioner of the discipline to which he devoted his life, his presence on the University of Illinois campus for thirty-seven of his eighty-seven years assured students and colleagues alike that there was an intellectual underpinning to accounting practice. Ultimately, practitioners turned to theoretical studies for guidance, and his thinking—expressed in eight books, more than 100 articles, and numerous book reviews and published comments—did much to establish the view that accounting practice was to be guided by accounting principles and standards.¹

In a historical perspective it seems reasonable to suggest that the impact of the efforts of Ananias Charles Littleton on accounting thought is particularly noteworthy because of the time period spanned by his work and because of the influence of his early academic thinking on subsequent organized accounting thought. His contributions in the area of accounting education, theory, and practice were continuous from the time he returned to the University of Illinois in 1915 to begin a teaching career until the mid-1960s, well past his retirement in 1952. An articulate and persuasive advocate of original cost-based accounting, his influence on the official pronouncements of the American Accounting Association endured for thirty years, and the thoughts expressed in his early writings even now are reflected in the official publications of the American Institute of Certified Public Accountants. Clearly, his views on accounting have influenced two

¹ For a factual description of Professor Littleton's life and his contributions, see V. K. Zimmerman, 1967, pp. 1–20.

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generations of academicians and practitioners alike.

Several factors seem to have formed and shaped his thinking, but the particular environment of his early life and his intellectual interests seem to dominate. The son of a railroad worker, at the time of the industrial growth of the Midwest, in an area where livelihood centered around agriculture, he absorbed both the steadfastness and self-reliance of the farming community and the sense of progress accompanying the industrial growth. From that base, his intellectual interests developed. By the time he reached high school, he had become a voracious reader with a marked interest in English literature and composition. Perhaps it was this liking for reading and study that initially motivated his interest in attending college. In any even, by working in small Illinois towns as a railroad telegrapher, he accumulated funds for his education. This work experience apparently initially influenced him to study “railroad administration” when he entered the near-by University of Illinois. But when he returned to the University following his freshman year and after another period working with the railroad, his educational goal changed. A chance association with two students living in the same boarding house acquainted him with the relatively new Illinois CPA statute (1903) and the burgeoning public accounting profession in Chicago. He changed his program to the study of accounting, and employment in an accounting firm in Chicago followed his graduation in 1912. In later years his early experience in railroading was evident in effective analogies that permeated his speaking and writing.

It is difficult to determine why he entered academic life, but apparently it was the close personal relationship he developed with Hiram T. Scovill, who also worked for the Chicago accounting firm. H. T. Scovill returned to the University of Illinois as a teacher and, when another instructor in elementary accounting was needed in 1915, A. C. Littleton was persuaded to fill this position. He found the experience challenging and started work towards a master’s degree, which he received in 1918. Because teaching materials were sparse in those days, one of his first activities as a teacher was to write a text, *Introduction to Elementary Accounting*. It was published in 1919. In that same year, he also received an Illinois CPA certificate. He completed his formal education with a Ph.D. in Economics from the University of Illinois in 1931.

In 1933 Professor Littleton published what has become a classic in the field of accounting history, a prodigious volume entitled *Accounting Evolution to 1900*. Based on work done for his Ph.D. dissertation, this volume established his qualifications as a scholar of national reputation and formed the foundation for the wide acceptance of his writings. Also, the influence of this effort on his thinking is apparent in many of his subsequent writings. In Littleton’s view accounting theory and accounting practice represented a single body of knowledge and were not separable. He firmly believed that practice reflected theory and that theory found its expression in practice. This is not to say that he believed all accounting practices were necessarily sound or that the theoretical justifications for particular accounting practices were necessarily valid. Rather, it was his discovery of anomalies in practice that could not be explained by any theoretical structure coupled with the existence of admittedly questionable practices supported by unsound justifications that spurred his search for the best practice and the best theoretical justification among many possible alternatives in accounting.

Littleton’s greatest impact on the thinking of professional accounting bodies came
in a period beginning in the late 1930s, the era to which the roots of much contemporary accounting practice may be traced. A review of the trend of developments prior to that time will help call attention to Littleton’s influence in the 30s and 40s.

As early as 1917, pronouncements by the American Institute of Accountants, the predecessor organization to the present AICPA, and the Federal Reserve Board—prompted by the Federal Trade Commission—had tended to support increased uniformity of accounting practice. The passage of the sixteenth amendment in 1913, and succeeding revenue acts, particularly that of 1918, strengthened the cost-based notion of asset valuation. The widespread adoption of historical cost valuation and the point-of-sale realization rule, in fact, may have been caused more by the desire of businessmen to minimize taxes than to any developments in accounting theory. All of this Littleton, as a teacher, absorbed and taught to his students. By 1921, the point-of-sale realization rule was widely recognized as providing a conceptual justification for valuing current as well as fixed assets at cost. By the early 1930s, such foundations of present-day practice as the cost basis of accounting, the realization postulate, the doctrine of conservatism, and the necessity for consistency in accounting were well known. This too became a part of Littleton’s thinking base, and many were the overconfident students who “marched in and crawled out” of his office as he calmly and relentlessly evaluated their attempts either to defend or to attack these somewhat imprecise guidelines for accounting practice. But the gap between the body of knowledge he had accepted and the accounting practice he observed was large. Companies listed on the stock exchanges continued to use a large variety of accounting and reporting methods, and departures from the cost basis of accounting were frequent. To Littleton’s impulse for order and harmony, this situation was intolerable and it called for a reconciliation or an explanation.

As a consequence of the disillusionment with the existence of uncontrollable valuation approaches to income determination in the post-1929 era, the view of measuring income by a matching of costs and revenues became the focus for the development of accounting thought. Littleton earlier had accepted this and contributed to its development. This change in the nature of the accounting income concept was further supported by the establishment of the Securities and Exchange Commission in 1933. The SEC sought objectivity in accounting measures and effectively served notice on the accounting profession that it must adopt or have imposed on it more systematic and comprehensive income-determination rules, and this development was compatible with the matching concept.

The Commission’s requirement that the financial statements filed under the Act be accompanied by a certificate of an independent accountant gave the profession a great opportunity. To Littleton, this meant that accounting data would have to be based on objective evidence. In response to the SEC requirement, the American Institute developed the beginning of what now is known as the standard short-form audit report, a development that signaled the beginning of an extensive literature devoted to the matter of identifying “generally accepted principles of accounting” and to which Littleton responded.

At its meeting in December 1935, the American Accounting Association made a decision to participate in the development of accounting principles. According to Littleton this action was motivated, in part, by the decision of the American Institute to associate certification with generally accepted principles of accounting. The hope was that the AAA might be an
effective force in improving reporting for the benefit of both the business community and the public at large. In 1936 the executive committee of the AAA, whose membership included A. C. Littleton and William A. Paton, produced the well-known report, "A Tentative Statement of Accounting Principles Underlying Corporate Financial Statements," and Littleton presented a report on this to the Association at its meeting in 1936. Up until that time, accounting procedures had been based primarily on specific rules and recommendations, and the 1936 Statement was significant because it was one of the first major attempts to develop a framework which might be regarded as representing a structure of the fundamental principles of accounting.

The 1936 Statement evoked a vociferous response in the accounting literature, but had little noticeable impact on the practice of public accounting. In common with businessmen, public accountants clung to the earlier view that financial statements were largely matters of individual owner, manager, or creditor concern, and since business was viewed as a private affair among these three groups, it seemed reasonable to conclude that principles might well vary according to the circumstances. To permit the disclosure of information relevant to various situations among these three groups, a permissible variety of accounting treatment was regarded as preferable to enforced compliance with universal and unalterable rules. The American Institute did encourage the efforts of individual firms to develop codifications of general purpose accounting principles. Littleton and others did write in practical terms attempting to explain the beneficial aspects of the 1936 Statement to accounting. In spite of the distinguished authorship of these attempts, they also had a negligible impact on efforts to establish an identifiable body of general purpose accounting standards. Since practice was already improving, some of the proposed desirable accounting standards were superseded before they were published with the result that their impact was unimportant.

A major step in the attempt to formulate accounting principles was taken by the American Institute in 1938. Its Committee on Accounting Procedures was reorganized and a research division was established with the charge of eventually formulating pronouncements on specific accounting procedures. The committee, which included A. C. Littleton, as well as William A. Paton and George O. May, soon issued three Accounting Research Bulletins dealing primarily with areas in which current practice had been subject to criticism. From this beginning, the committee adopted what came to be known as the "ad hoc" approach to the formulation of accounting principles—giving immediate help to accountants faced with special problems. In general, this Committee did not explain the relationship of its conclusions to any organized body of theory.

In contrast to the piecemeal approach being taken by the American Institute, the AAA continued working on the development of an overall framework of theory to support accounting practice. Undoubtedly this was due in part to the limited resources of the AAA but primarily it was due to the theoretical orientation of the majority of its members. It was under the auspices of the AAA that a most significant document, Introduction to Corporate Accounting Standards, was published in 1940. Authored by William A. Paton and A. C. Littleton, both of whom had served on the committee that had produced the 1936 Statement, this 1940 Monograph was intended to provide a framework of accounting theory underlying the 1936 Statement. At the time it represented, and in view of many still remains, the best available statement of ac-
counting theory applicable to the preparation of corporate financial statements in historic cost form. This result was somewhat surprising since it was a collaboration between men who began with very different premises.

Paton brought an economic point of view to the joint effort while Littleton provided an historical and philosophical background. To Paton cost was not important in its own right; rather it was important only as a measure of value of what was acquired. He would have preferred to restate acquisition cost for price changes before matching cost and revenue. Essentially, he thought the accounting measure of income should reflect the difference between the economic value of a business at the beginning and at the end of a period (allowance being made for investments and withdrawals), and he criticized accountants for taking it for granted that “cost” was always equivalent to “value.”

To Littleton, income determination also was the heart of accounting, but he apparently was not as bothered as others by the absence of a close conceptual relationship between accounting practice and economic theoretical structures for the determination of income, as suggested by the following statement:

One of the keenest critics of accounting theory has said with much justification that “accountants have no complete philosophical system of thought about income.” That statement is all too true. Accountants, like businessmen, are too deep in practical affairs to be philosophers. But that does not prevent accounting records from giving expression, piecemeal as it were, to definite concepts of profit and income (Littleton, 1937, p. 15).

Littleton recognized a dilemma between the wishes of the users of financial statements and what he considered to be the limitations of accounting. “The businessman, the banker, the investor, may have many occasions to ‘evaluate’ a property, or prospect, or market, or stock of goods, but accounting never has” (Littleton, 1929, p. 153). To Littleton the primary function of accounting was a record-keeping and disclosure function, and secondarily, if at all, a valuation function. To him financial statements should aid users in evaluating one thing or another, but the financial statements were never really statements of values; because values were too momentary and too subjective to be clothed in figures. As a consequence, acquisition cost was important in its own right, as an expression of the investment in goods, but not as a surrogate for value. Littleton viewed profit as the end result of the efforts of management bent upon finding a profit out of acting as an intermediary between supply and demand. The accounting function was to serve primarily the supply, or cost, side. Its particular service lay, not in attempting to measure value, but rather in the individualistic function of recording capitalistic investments and advances, and of weighing these against the returns flowing from them under the influence of management.

Although these two scholars who produced the 1940 Monograph had differing conceptual notions of how the accounting measure of income should be approached, they did agree on the essential goal of accounting efforts:

The details of the process of measuring the rate of income are unsettled but there is no question as to the importance of this factor. Earning power—not cost price, not replacement price, not sale or liquidation price—is the significant basis of enterprise value. The income statement therefore is the most important accounting report (Paton and Littleton, 1940, p. 10).

Working together, the authors succeeded in developing theoretical support for contemporary, cost-based practice that was forward-looking and basic.

The authors shared compatible, although not identical, views concerning the
The methodology of accounting research. Paton was an advocate of the deductive, or postulational approach to determining accounting principles. To Littleton, there existed a mutual dependency between inductive and deductive approaches; if both approaches reached the same conclusion, "truth" was evident. Being primarily inductive, Littleton paved the way for the empirical approach to accounting knowledge. To him, there existed "fundamental truths" in accounting. These might be either generalized out of practical experience or deduced from stated premises which were accepted as truth in themselves. Accordingly, it was hoped that these "postulates" would not be subjected to refutation except perhaps as accounting evolved. Although the influence of the methodologies of both authors is apparent in the 1940 Monograph, the stronger impact appears to have been Paton's, for this was the first framework developed deductively rather than inductively derived from accounting practice. In the Monograph the concept of verifiable, objective evidence clearly reflects the thinking of Littleton. It provided a means whereby accuracy of the accounts could be tested by examination of the documentation supporting the original transactions. This emphasis upon objective evidence has never been weakened; in fact, it has become stronger as business activities have become more complex and as the separation of ownership and management has accelerated. Verifiable, objective evidence has become an important element in accounting and a recognized adjunct to the preparation of financial statements. It may well be that this postulate of "objectivity" had the greatest influence in gaining practical support for the substance of the 1940 Monograph.

The authors of the Monograph agreed that transaction price, or historic cost, should be the standard basis for measuring accounts on both sides of the balance sheet. The reasoning supporting this position was that carrying assets at acquisition cost would eliminate the heterogeneous results that had been found so often in corporate accounting. Past standards had been unduly lax in permitting periodic revaluation of resources, up or down, in accordance with changing prices and expected business developments. Similarly, liabilities, like assets, represented bargained prices, and the same was true of capital equity. These ideas represented a marked departure from the earlier thinking of Paton. Perhaps the issue of the cost amount to match against revenue was not as important to Paton in 1940 as it had been earlier because the price level problem was a dormant issue in the 1930s. Perhaps it was because of Paton's desire to formulate a theoretical underpinning for the 1936 Statement. For whatever reason, it was Littleton's conviction that accounting be cost-based that prevailed in the Monograph and gained for it the support of the practicing arm of the profession.

Overall, the impact of Littleton on accounting practice, through the vehicle of the 1940 monograph on corporate accounting standards, appears to include the following developments.

1. The wide recognition of assets as essentially deferred acquisition costs, as investments or effort applied to future objectives, rather than as measures of current values.

2. The reinforcement of the matching concept as a means for measuring income. It represents an operational definition of the concept of income only now being accepted in practice.

3. The clarification of the distinction between contributed equity capital and retained earnings, from which the all-inclusive income statement gained much support.
Subsequent to publication of the 1940 Monograph, Littleton's articles throughout the 1940s and 1950s dealt with the wide range of topics, including accounting education, the public accounting profession, accounting principles, and price level adjustments. In a sense he seems to have been explaining the implications of the 1940 Monograph to various areas of accounting and expanding certain aspects of the basic ideology of the Monograph.

Following his retirement from the University of Illinois, Littleton cast the framework of accounting thought into a broader scope. His monograph, *Structure of Accounting Theory*, published in 1953 under the auspices of the AAA, broadened the area of accounting concern to philosophical issues. This Monograph apparently was motivated by Littleton's view that there was far too little demonstration in the literature of theory as explanations, reasons, or justification of why accounting (technology and the profession) is what it is. Essentially he was calling for rigor in accounting reasoning and may have contributed to the development of the use of modern research methods in accounting. The monograph also served as an aid to education so that students need not memorize rules:

Teachers of bookkeeping and later of accounting and auditing found it necessary to supplement the accumulated rules and descriptions of procedures by explanation and justifications. This was done in order that study should be something more than the memorizing of rules. (Littleton, 1953, p. 185).

The 1953 Monograph, and its successor, *Accounting Theory: Continuity and Change*, co-authored with V. K. Zimmerman, attempted to relate the practice of accounting to a generalized thought structure broader than the "evolution" or "agreement" method used in developing propositions for the 1940 Monograph. An inductive approach, a departure from the earlier methodology of the 1940 Monograph, was used. While limited in scope to observations of the practice of accounting, the monograph demonstrated the need for an empirical approach to the development of accounting knowledge. The approach assumed an economic entity engaged in economic activities and defined the central purpose of accounting as making possible "the periodic matching of costs (efforts) and revenues (accomplishments)" (Littleton, 1953, p. 30). This concept was the nucleus of the theory and a benchmark that afforded a fixed point of reference for accounting discussion. The accounting principles in the 1953 Monograph were developed through the selection of generalizations about practice based on their coherence, according to Littleton's individual referent, with one another. Bad practices were to be distinguished from good practices on the basis of whether or not they fitted into the right arrangement of interrelated ideas that formed this "coherent" theory. While somewhat narrow in content, the methodology used opened wide the field of accounting research and, in time, the *Structure of Accounting Theory* may well become Littleton's greatest contribution.

In developing accounting principles and procedures, two major approaches may be recognized. One assumes that general purpose financial statements are prepared for a set of unknown multiple users with unknown multiple objectives. The focus of effort then is one of providing general information for the making of many types of economic decisions by many persons or organizations outside the reporting entity. The second approach sets as an objective the task of providing a means for developing information relevant to specific user decision models. This requires identifying users and information needs fairly

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3 For an elaboration on this early view, see Littleton, 1956, p. 363.
specifically and determining either what information the user wants or, by the use of normative models, what information the users should have. Littleton's efforts to develop principles and practices followed the first approach. His decision to rely on the "distillation of practice" to develop accounting principles in the early days probably was sound, partly because of the need to focus on a single set of financial statements for external use and partly because of a lack of knowledge regarding users and their specific needs. Significant as this effort was in calling to the attention of accounting scholars the need for empirical support for their conclusions and effective as he was in developing what is probably a most complete descriptive theory that attempts to explain the foundations and effect of current practice, the particular inductive approach on which his book rests commits the elementary fallacy of getting what ought to be from what is. Nevertheless, the 1953 Monograph did open the door to systematic research and, fortunately, the impact of his particular inductive conclusions was transient.

The second approach to the development of principles and procedures, where it is assumed that accounting is a measurement and communication process, results in a number of special decision models and may not permit the level of generalization sought by Littleton. Under this approach, current or proposed specific accounting reporting procedures are studied through the testing of hypotheses about such things as (1) the prediction of future objects, activities, or variables; (2) motivation and other behavior aspects of information; and (3) microeconomic activities. Littleton's work, of course, did not deal with the development of hypotheses about behavioral consequences which might be expected in specific situations from the employment of particular accounting-treatment rules. Rather he assumed that prevailing practice had, by the trial and error approach, solved the problem of accurate or inappropriate practices and that prevailing practice was, in a crude but effective way, the best practice possible and that it was possible to attempt to formulate a reasonably general theory of accounting inductively from such practices. Many now question the validity of his assumption about the effectiveness of practice in providing the most relevant information, and the issue of the proper approach to the development of accounting is unresolved. There are differences of viewpoint about whether a general theory of accounting can be formulated in advance of validated special theories developed from scientific research methods. Whether or not specific studies are likely to provide a complete basis for a theoretical approach to the development of a general theory of accounting, they may be very helpful in finding variables and relationships upon which accounting theory ultimately can be based and in providing a basis for testing hypotheses developed by the theory. Ultimately, the battle over theory may well have to be resolved at the level of abstraction identified by Littleton; well-formed arguments may have to be presented about what accounting ought to be in order to provide a basis for further empirical research.

While this perspective of Littleton's contribution has centered on the influence of his writings on accounting thought and practice, his direct impact on the profession also was substantial. Much of what he did is not reflected in publication. He was always very active in professional organizations. He was president of the American Accounting Association in 1943, director of research from 1940–42, and editor of The Accounting Review from 1943–47. He also served on several professional committees including the Committee on Accounting Procedures of the
American Institute of Certified Public Accountants.

His contributions to the field of accounting education also are exceptional. Under his direction a program leading to a M.S. degree in accountancy was developed in 1922, and ultimately the first Ph.D. program in accountancy in the United States was established, with the first degree being awarded in 1939. Eventually, his doctoral students carried his views of the scholarly aspects of accounting throughout the world.

It is difficult to attribute surviving accounting concepts to any one accounting scholar. But the following features of accounting practice, theory, and research seem to have felt the impact of Littleton's contributions:

1. The inductive approach to the development of accounting knowledge.
2. The historical method of relating accounting practice to its social and economic environment.
3. The development of general purpose financial statements which permitted the initial development of an organized structure of accounting thought.
4. The view of accounting theory construction as explanations of varying levels of validity of relations among concepts.
5. The comprehensive view of accounting as one common interrelated body of knowledge to be studied and examined as a single discipline.

Other features could well be added and some of those associated with Littleton could also be attributed to others, but the foregoing will suffice to assure present day scholars and practitioners alike that we advance from the shoulders of a man who contributed to us a strong foundation for the further development of accounting. Even though we may from time to time repair, reject, expand, or restructure that foundation, we have had the advantage of a starting base for our thinking, and for this we salute Professor A. C. Littleton as an expression of our appreciation.

REFERENCES

—, Structure of Accounting Theory, Monograph No. 5 (American Accounting Association, 1953).