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## Syllabus of foreign exchange accounting

Christian Djorup

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### Recommended Citation

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NEW YORK UNIVERSITY  
SCHOOL OF COMMERCE  
ACCOUNTS AND FINANCE

SYLLABUS  
of  
FOREIGN EXCHANGE ACCOUNTING

by  
CHRISTIAN DJÖRUP, B.C.S., C.P.A.

McARDLE, DJÖRUP & McARDLE

Accountants and Auditors

New York City

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# SYLLABUS

## Foreign Exchange Accounting

Christian Djörup, B.C.S., C.P.A.

This course acquaints the student with foreign exchange operations, of vital importance in financing our foreign trade, and with the recording of the transactions of a foreign department.

Every foreign exchange man must be a lightning calculator. This course, designed principally to help employes of foreign departments and of import and export offices, teaches short cuts in arithmetic, contracted multiplication and division, chain rule, conversion of foreign currencies, arbitrage, and the application of higher commercial arithmetic to exchange operations.

Sufficient theory is presented to familiarize the student with the different kind of exchange operations, before the regular monthly business of a foreign department is recorded in the general and subsidiary records kept by banks.

In addition to the bookkeeping and accounting of a foreign department there is taken up the preparation of discount statements, of accounts current with interest calculations by three methods, reconciliation of foreign statements to ledger accounts and the work of the auditor of the foreign department.

In the following paragraphs is presented a short explanation of the principal terms and media of foreign exchange to assist in the accounting of the transactions shown subsequently.

## FOREIGN EXCHANGE

**Definition of Foreign Exchange.**—The Encyclopaedia Britannica tells us that Foreign Exchange is the system by which commercial nations discharge their debts to each other. We understand under foreign exchange, not only the medium by which balances are settled between foreign nations, but also the price at which this medium is quoted. Our newspapers will inform us that foreign exchange is going down, or that the foreign exchange rates have a favorable tendency, which means, that the price for bills of exchange quoted in our currency is going down, or that we are able to buy for one dollar, more of the foreign currency which is quoted in the quantity of foreign currency that we can purchase for a dollar. And if we are informed that foreign exchange is plentiful, that will mean that there is a great supply of foreign bills of exchange, or that more of the medium of foreign exchange is offered than the demand will absorb.

**Parity of Exchange.**—The price of foreign exchange will be somewhere near the parity in normal times. The par value or parity of exchange expresses the value of the gold unit of the currency of one nation expressed in the currency of another. Most of the commercial countries have adopted the gold standard, and we can arrive at the parity between nations that have established the same standard. We cannot, however, compare or ascertain the parity between the currency of a nation that is using the gold standard with that of a country that is still using the silver coinage, or paper money, and in which latter country gold is sold like merchandise. To be able to compare the coinage of different nations, we must know their mint laws and by using the chain rule we can easily ascertain the parity between countries of the same standard.

**Chain Rule.**—The chain rule is most commonly used to solve compound equations. The chain is practically

a fraction, the right side of the chain being the dividend, the left the divisor. Each line or link of the chain is an equation. The first link commences with the unknown quantity. Each succeeding link must commence with a factor of the same denomination as the second factor of the preceding link and when we arrive at a second factor of the same denomination as the unknown quantity or the first factor of the first link, our chain is closed. We then multiply all first factors, divide that product into the product of all second factors, and arrive at the result.

**Basis for Price of Exchange.**—However, the basis for the exchange quotations is not the parity but the check rate, from which discount and bill stamp are deducted to arrive at the rate for long bills, and to which interest is added to arrive at the cable rate. The quotations are regulated by the laws of demand and supply, and the theoretical limits of fluctuation are the gold points.

Demand and supply depend on the balances between commercial nations. If, for instance, foreign nations owe us more than we owe them, i. e., if the trade balances are in our favor, we shall draw heavily on foreign business centers. The supply of foreign bills of exchange will be plentiful, and the exchange rates will go down until they reach a point where some banker finds it profitable to import gold. He will buy bills or cable transfers on London, with which he will purchase gold there.

**Gold Shipments.**—The gold will be shipped by the next fast steamer to New York, and at the mint he will receive \$10.00 for every 232.2 grains of fine gold contained in the shipment. This transaction will be profitable if the rate of exchange, plus the cost of insurance, packing, cartage, freight, loss of interest, and the loss caused by abrasion, not to speak of the small fee paid at the mint, amounts to less than \$4.8665. On the other



hand, when the quotations rise to such an extent that the parity, plus shipping expenses, loss of interest, and so forth, amounts to less than the check rate, we say that the gold export point has been reached. Some banker will then sell bills on London and purchase gold, which will be sent abroad with the next fast steamer. It may be bar gold, or eagles or double eagles. For every \$4.8665 invested in gold, his correspondents will receive £1 within two or three days from the day of arrival of the gold shipment; and, as the gold shipped and drafts drawn by the New York banker go with the same steamer, there will naturally be a loss of interest of only a few days occasioned by the temporary overdraft on the account with the London banker.

**Fluctuation of Exchange Rates.**—The check rates will fluctuate more or less between these gold points. When the outflow of gold commences, the interest rates go up in this country and the exchange rates go down; and, when gold is imported in larger quantities, the foreign countries put the interest rates up and up go the exchange rates in our market. Thus will gold shipments check an excessive rise or fall of exchange rates in normal times.

Since the beginning of the war the exchange rates have been subject to most violent fluctuations, as it has been next to impossible to regulate the trend of the exchange quotations by gold shipments. Most of the foreign nations are now, to a large extent, indebted to us and it would be a physical impossibility for them to liquidate their entire indebtedness by means of gold shipments to our country. The exchange rates have therefore passed the gold import points a long time ago, and the stability of the exchange rates has been subject, more or less, to the support that the currency of each country received from the financial interests in that country, and in the business centres of the world.

The balances between commercial nations mentioned

before are created by imports and exports of merchandise, and also by indirect imports and exports. In connection with merchandise shipments we have freight, insurance, commissions, and, as most of the shipments are made in foreign bottoms, the freight bills reach tremendous figures in the course of a year. The indirect imports and exports are made up of purchase and sale abroad of securities for Americans, or on our stock exchanges for foreigners; the placing of entire bond issues, or parts of them, in either country on account of the other; the interest, being coupons or dividends on American capital invested in foreign securities, and on foreign capital invested in American enterprises; speculative purchase and sale in foreign markets or bourses of commodities like copper, tin, coffee, cotton, grain, sugar, and so forth, which involve no actual shipments until settlement day, but primarily the payment or collection of differences gained or lost; the placing of loans with, or for account of, foreign bankers and the resulting settlements; expenses of American tourists abroad, or of foreign travelers in our country, doweries given to American girls marrying foreigners. These and many other indirect imports and exports create balances between nations not shown in the government statistics, but they sometimes outweigh the imports or exports of merchandise. So it may occur that, although our exports of cotton, grain, and flour are largely in excess of the imports for the same period, the foreign exchange rates are very high because of securities sold on our exchanges on account of foreign houses, or American securities sold freely on the foreign bourses and bought by American investors. Although we make very heavy shipments of merchandise to a foreign nation which is already to a large extent indebted to us, the exchange rates of the currency of that nation may not be depressed far below normal, if we absorb a large amount of their bonds and other securities, which in turn offset the trade balances due from them.

**Bills of Exchange.**—The medium most commonly used to settle balances or to effect payments between foreign nations is the bill of exchange. The foreign bills of exchange are divided into clean bills and secured bills, and into short bills and long bills.

**Clean Bills.**—Clean bills are drawn by an American institution on a foreign house, and are not accompanied by negotiable shipping documents or securities. They are based on funds deposited abroad, and on credit balances obtained by previous shipments of merchandise, or through loan arrangements. The value of these clean bills depends on the standing of the drawer, the drawee, and the endorsers, if any, and on the drawer's probable authority to issue these drafts.

**Secured Bills.**—Secured bills are accompanied by stocks, or bonds, which are attached to and mentioned in the bills and are delivered against payment of the bills called "security bills." Then there is the much larger class of documentary acceptance or payment bills. The former are bills to which shipping documents are attached that evidence the shipment of merchandise and which documents are to be delivered against acceptance of the bills. The latter are accompanied by shipping documents to be delivered only upon payment of the bills. The shipping documents (mentioned above) must be in a negotiable form, and consist of a full set or sets of bills of lading, the insurance certificates, and documents erroneously considered of minor importance, such as certificates of weight, origin, inspection, hypothecation slips, plain or consular invoices, and so forth, according to the requirements of the trade or law in the country of destination. If the bankers in this country would organize a company for the purpose of inspecting and appraising the merchandise used as collateral for documentary bills, and would refuse to accept these bills without inspection certificates signed by reputable ex-

aminers, frauds perpetrated through spurious documentary bills would be minimized.

**Master's Bills.**—A smaller class of bills called master's bills should also be mentioned with the clean bills. The master's bill is drawn by the captain of a vessel on the steamship company or its agent at the port of destination, and is generally payable on arrival of the vessel. The purpose of these bills is to supply the captain with funds to meet his expenses.

**Short and Long Bills.**—Bills are further classified as short bills and long bills. The former are drawn for a period of less than thirty days after sight; the latter are payable thirty days after sight, or after a longer period.

**Pricing Bills of Exchange.**—In pricing foreign exchange there is also a distinction made as to the character of the maker or drawer and of the drawee, and the bills are divided into bankers' and commercial bills. The bankers' bills may be prime bankers' or plain bankers' bills, according to the character and standing of the principals whose names appear on them. Double name paper drawn by an American banker on a foreign institution will generally be valued higher than single name bills drawn by an American institution on a foreign branch office, or on a foreign institution controlled by the American house.

The commercial bills are also subdivided into prime commercial and commercial bills. The prime bills are those drawn by a commercial house of the highest standing on a foreign banker or a commercial house also of very high standing. The plain commercial bills show as makers and drawees the names of firms not rated so highly.

A foreign bill of exchange can be a short bill, and simultaneously a bankers' or commercial bill and a clean or a secured bill, and the documents attached in the

case of a secured bill can be delivered against acceptance or against payment.

A banker pricing exchange takes into consideration in the first place the names appearing on the bills; secondly, the security going with the bills. For example, a banker buying bankers' long bills will take into consideration the standing of the firm drawing the bills and of the bank on which the bills are drawn. These drafts are generally issued under some loan arrangement, and the quantity of these bills, called finance bills, offered in the market has to be considered. A great factor in arriving at the price to be paid for the finance bills is the readiness with which foreign banks discount these bills. Finance bills drawn by a very large American concern on its foreign branch office may be discounted abroad at a higher rate than similar bills of a much smaller institution drawn on an independent foreign bank, and consequently the latter class of bills may command a higher price in our market.

When pricing commercial bills, the banker will consider the name of the drawer or of the merchant from whom he buys the bills, and in the case of clean bills he will not purchase an amount in excess of the credit he would grant to the customer on his notes or bills receivable. A conservative banker will buy documentary bills only to the extent that he would grant loans against merchandise. Naturally, the name of the drawee, the nature of the merchandise, whether perishable or non-perishable, the delivery of the documents, whether against acceptance or against payment, and the foreign market for these bills, will have to be considered. Acceptance bills can be discounted abroad, while documentary payment bills are not discounted by the foreign banks. However, the former are like clean bills after the documents have been delivered against acceptance, and the additional security in the shape of merchandise expires with the acceptance of the bills. The latter retain this security until the bills are paid, and

certain classes of documentary payment bills are retired, i. e., taken up before maturity by the drawees or acceptors. Some of the payment bills are held for collection at maturity, and, the money invested in the bills being tied up for a certain length of time, the purchaser of these bills would have to consider the interest rates in New York. The prices quoted for the different bills of exchange will ordinarily vary with the risk, which the foreign exchange man attaches to the specific bills, and with the facilities that he has for handling them abroad.

**Transfer of Funds.**—Other means of transferring funds to foreign countries are cable or telegraphic transfer, which is an order sent by cable or wireless for the payment of money, and the mail transfer or delegation, which is an order transmitted by letter for the payment of money, or the transfer of a certain amount to a specified payee. Postal money orders are the means adopted by many foreigners for remitting funds abroad, and usually these remittances are made through an institution having branches abroad, or other facilities for the remitting of money through continental postal authorities.

**Travelers' Checks and Letters of Credit.**—Travelers' checks issued by the American Bankers Association, by express companies or by bankers have taken the place of international money. They can be cashed in every part of the world, and are taken by many tourists in preference to letters of credit. Travelers' letters of credit authorize the holder to draw up to a certain amount on one foreign bank, or on several banks, or on all the correspondents of the bank issuing the credit. These drafts, which have to be drawn in accordance with the requirements of the letter of credit, are cashed by almost every bank, occasionally even in hotel offices. The letters of credit are paid for either at the time of issue, or the holder furnishes the issuing

banker with a guarantee signed by himself or a third party, arranging the payment of the drafts drawn under the credit as they reach the banker.

**Commercial Letters of Credit.**—The commercial letters of credit are the means by which the exporter obtains immediate cash payment and the importer the sixty or ninety days' credit which he needs to transact business. The American merchant desirous of buying goods abroad obtains a letter of credit in favor of the foreign exporter. The latter will draw a draft for his invoice, or part of it, according to the arrangement, on the banker on whom the credit is issued at sixty days' sight or some other time. The draft, with the shipping and other necessary documents attached, will be presented to the drawee for acceptance. In accepting the draft he will detach the documents and forward them to the foreign department. The latter will immediately notify the importer of the arrival of the documents and deliver them to him against a trust receipt. By virtue of the trust receipt, title in the merchandise remains with the foreign department until payment of the draft has been effected by the importer. This payment is made in time to remit to the accepting bank, and no capital of the foreign department should be needed for the transaction.

We have three kinds of these credits:

Foreign Import Letter of Credit  
Own Import Letter of Credit  
Export Letter of Credit

Foreign import letter of credit is a credit opened by an American bank upon another institution or its foreign correspondent in favor of a foreign shipper, and for account of the American importer.

Own import letter of credit is opened by an American bank on itself in favor of a foreign shipper and for account of the American importer.

Export letter of credit is opened by the American bank on itself in favor of an American exporter, and usually through a foreign bank on behalf of the foreign importer.

These credits are either sight credits or time credits; that means, the drafts drawn under these credits are payable at sight, or at a certain specified time after date, or after sight, and it is very important to record the liabilities involved by these credits.

There is a double contingent liability for each credit when it is issued, which will be reduced by every draft drawn under the credit. The drafts create actual double liabilities.

**Foreign Import Letter of Credit.**—A letter of credit issued gives rise to the contingent liability of the customer to the foreign department, and a contingent liability of the foreign department to the bank upon whom the credit was issued. Drafts accepted under these credits create an actual liability of the customer to the foreign department, and of the foreign department to the accepting bank. Prepayments on behalf of these acceptances received by the bank from a customer are usually set up as a liability, and used as a reduction of the customer's liability whenever a statement of condition is prepared.

**Own Import Letter of Credit.**—Letters of credit issued constitute a double contingent liability of the customer to the foreign department, and of the latter to the beneficiary of the credit. Drafts accepted, reduce the contingent liabilities, and create an actual liability of the customer to the bank, and of the bank to the holder or presenter of the acceptance at maturity. Prepayments will be treated the same way as those under the previous heading.

**Export Letter of Credit.**—When the letter of credit is issued, a double contingent liability is created by the



foreign customer (usually a foreign bank) to the American bank, and of the latter to the beneficiary of the credit. Acceptances of drafts against these credits will reduce the above contingent liabilities and give rise to an actual liability of the foreign customer to the American bank, and of the American bank to the holder or presenter of the drafts.

Acceptances of this kind will rarely be rebated by a foreign customer, but they may be re-purchased by the accepting American bank, which would reduce their own liability without reducing the customer's liability.

**Records of Foreign Department.**—To record the transactions of a Foreign Department we use general and subsidiary records.

The general records are the Journal, Commercial Letter of Credit Journal, Bank Ledger and Miscellaneous Ledger, and the results of the transactions and changes of balances are shown in the daily statement.

The subsidiary records are the Remittance Register, Draft Register, Collection Register, Commercial Letter of Credit Record and Liability Records for foreign bills and letters of credit.

**Journal.**—Most Foreign Departments use multiple carbon forms and tickets as original records of charges and credits to the ledger and control accounts. To avoid a large number of tickets and to simplify the work, all transactions of this Foreign Department except Commercial Letter of Credit transactions are entered in a journal. This record is arranged with columns to obtain the total charges and credits to controlling accounts, while the detail is posted to the accounts contained in the Bank Ledger or Miscellaneous Ledger.

**Commercial Letter of Credit Journal.**—This record is divided into the following four groups:

1. Commercial Letters of Credit Issued.
2. Deduction from Commercial Letters of Credit Issued.  
Addition to Commercial Letter of Credit Acceptances.

3. Deduction from Commercial Letters of Credit Issued.
4. Deduction from Commercial Letter of Credit Acceptances.

Each group shows three subdivisions for "Foreign Import," "Own Import" and "Export Credits."

**Bank Ledger.**—This record contains the following groups of accounts:

1. "Due from Banks" also called "Conto Nostro" or "Our Accounts," which represent our accounts with foreign correspondents, kept in foreign currency and Dollars.
2. "Due to Banks" also called "Conto Vostro," "Their Accounts" or "Dollar Accounts" showing the accounts of foreign banks with us, usually kept in Dollars only.
3. "Foreign Bills Purchased" or "Long Bills" representing our purchases of long bills for investment purposes, not discounted abroad.
4. "Unpresented Foreign Drafts" showing the drafts or checks drawn by foreign banks on us that have not been presented for payment.
5. "Long Drafts"—our own long drafts drawn on foreign correspondents.

**Miscellaneous Ledger.**—This record contains the earning and expense accounts of the department, the control accounts for the different groups of accounts kept in the Bank Ledger and for the liabilities under Commercial Letters of Credit as well as the General Account showing the capital invested in the department.

**Remittance Register.**—The Foreign Bills Purchased are entered in this Register. The short bills and the long bills, for which discount has been arranged, are charged to the individual "Due from Banks," the long bills to be held are charged to the "Long Bills" accounts. The totals only of bills sent to individual banks are entered in the Journal as the incoming correspondence is treated in this Register which is also used to check the remittances credited by the foreign banks in their statements of our accounts. This Register is also used to make the entries in the Liability Records for foreign bills.

**Draft Register.**—This record is built up from carbon copies of advices to foreign correspondents of drafts drawn on them. The totals shown on advices are credited by means of the journal to “Due from Banks” or “Long Drafts” accounts.

**Collection Register.**—In this record are entered the bills received from customers for collection and forwarded to collecting agents or foreign correspondents for collection.

**Commercial Letter of Credit Record.**—Every Commercial Letter of Credit issued and the subsequent drafts accepted by other banks, foreign correspondents, or by ourselves are entered in this record in the currency shown on the credit.

Fixed arbitrary rates are used to convert the foreign currencies into Dollars.

**Liability Records.**—These records are divided into liability records for foreign bills and for commercial letters of credit. The former are subdivided as follows:

1. Customers.
2. Drawees.
3. Drawers.

the latter are subdivided into:

1. Customers.
2. Acceptors.

The entries in the liability records for commercial letters of credit are made from the Commercial Letter of Credit Journal and the balances available, and outstanding acceptances should always agree with the respective controlling accounts.

**Recording of Transactions.**—We have made arrangements for transacting business abroad with the following banks:

Lloyds Bank, Ltd., London  
Credit Lyonnais, Paris

Incasso Bank, Amsterdam  
 London County, Westminster & Parr's Bank, Ltd., Madrid  
 Dresdner Bank, Berlin

and commence operations of our Foreign Department.

April 1, 1921

We buy the following items:

Cable transfers payable here and abroad on April 2nd:

Asia/Lloyds	£ 10,000 @ 4.8575
Gty./Cred. Lyonnais	Fcs. 100,000 @ 5.20
City/Incasso Bank	Glds. 50,000 @ 40¼
I. N. B./Parr's, Madrid	Ptas. 100,000 @ 19¼
Speyer/Dresdner Bank, Berlin	Mks. 100,000 @ 94½

Checks from Guaranty Trust Co. against immediate payment:

1001	£	10,000	@	4.85¼
1002	Fcs.	100,000		5.20%
1003	Glds.	50,000		40
1004	Ptas.	100,000		19
1005	Mks.	100,000		94½

60 d/s Documentary Acceptance Bills which we remit for collection and credit at maturity:

6001	£	1,285.10.6	4.82¼	Brown & Sharp on Brown & Son
6002	£	1,614. 4.8	4.82¾	" " "
6003	Fcs.	12,875	5.21¼	" " Martelle & Fils
6004	Fcs.	13,750	5.21¾	" " "
6005	Ptas.	14,750	18¾	" " Caragol & Co.
6006	Ptas.	12,320	18¼	" " "

We buy from Brown & Sharp and Remit for Discount at best:

60 d/s Drafts:

6007	£	1,684.10.—	@	4.82¼	Brown & Son
6008	£	4,218.		4.82	"
6009	£	3,257.		4.82	"
6010	£	2,971.		4.82	"

90 d/s Drafts:

9001	Fcs.	15,875	@	5.25%	Martelle & Fils
9002	Fcs.	14,321		5.26¼	“
9003	Fcs.	15,000		5.25% less ½	“
9004	Fcs.	15,000		5.26¼ plus ½	“

We issue to Brown & Sharp the following Commercial Letters of Credit:

1001	Cable £	10,000	Sight, favor Brown & Son, Shipment of General Merchandise, good till June 30.
1002	Cable £	10,000	90 d/s, favor Drake & Co., Ltd., Shipment of General Merchandise, g. t. c.
1003	Cable Fcs.	100,000	60 d/s, favor Martelle & Fils, Shipment of General Merchandise, good till July 31.
1004	Mail Fcs.	100,000	60 d/s, favor Martelle & Fils, Shipment of General Merchandise, g. t. c.

We charge Brown & Sharp \$18.75 for cable expenses. We issue to Brown & Sharp our Own Import Credits, as follows:

5001	Mail \$10,000.00	Sight, favor Spanamo Trading Co., Lisbon, Shipment of 200 c/s Olive Oil, good till July 31.
5002	Cable \$25,000.00	Sight, favor Italian Trading Co., Genoa, Shipment of 5,000 Boxes Maccaroni, good till cancelled.
5003	Mail \$10,000.00	60 d/s, favor Mendocal & Co., Havana, Shipment of 50 Tons Sugar @ \$200.00 short ton, good till June 30.

We sell the following exchange items:

Cable Transfers:

£	5,000	@	4.86¼	Lloyds/Ultramarino
Fcs.	40,000	@	5.19%	Credit/Lazard Freres

Checks to Brown & Sharp:

1001	£	1,864.10.—	Favor Drake & Co., Ltd.	@	4.85%
1002	£	1,321. 28	“ Black Bros.		4.85%
1003	Fcs.	12,765.00	“ Martini & Co.		5.20 less ½
1004	Fcs.	8,375.00	“ Paquin & Co.		5.20 less ½
1005	Glds.	4,836.00	“ Teixeira & Co.		40½
1006	Glds.	1,375.00	“ Van Sandt		40%
1007	Marks	14,875.00	“ Borgenicht & Co.		94%
1008	Marks	12,350.00	“ Auerbach's Sohne		94%

We receive the following payments:

Natl. City \$50,000.00 a/c Lloyds, London

Gty. 75,000.00 a/c Incasso Bank, Amsterdam  
Incasso Bank opens Credit No. 3658 (Our No. 5004) \$100,000.00 in favor of Dodge Bros. for shipment of 50 Motor Trucks @ \$2,000.00 —Drafts at 90 d/s for a/c Overseas Trust—good till cancelled.  
Lloyds opens Credit No. 17615 (Our No. 5005) \$80,000.00 Sight, in favor of Brown & Sharp, Shipment of 200 c/s Typewriters for a/c Brown & Son—good till cancelled.

Brown & Sharp ship merchandise and hand documentary payment drafts to our foreign department for collection:

6001 \$500.00 10 d/s A. Blanco, Vera Cruz, against 5 c/s General Merchandise.  
6002 \$330.00 15 d/s Murillo, Matanzas, Cuba, against 3 c/s General Merchandise.  
6003 \$700.00 Sight Martinez, San Juan, P. R., against 7 c/s General Merchandise.

We send these drafts to the following banks:

Banco Nacional de Mexico, Vera Cruz  
Banco Nacional de Cuba, Matanzas  
Banco Nacional de Puerto Rico, San Juan

for collection and remittance of proceeds by check to New York.

We receive for exchange sold \$ 28,527.03  
We pay for exchange bought 224,232.35

April 15

We receive mail from our Foreign Correspondents. The cable transfers bought on April 1st have been credited to our accounts Value April 2nd.

We receive cables from London and Paris that the 60 and 90 d/s bills have been accepted, discounted @  $4\frac{1}{2}\%$  and credited to our accounts £12,030.28 value April 12, Francs 59,488.30, value April 14.

London paid on April 3, £3,265 against Sight Draft under L/C No. 1001. We charge @ 4.86 plus 12 days interest and  $1/16\%$  commission and deliver the documents against payment of our charges.

London accepted on April 4 £4,200. 90 d/s Draft against L/C No. 1002. We deliver documents against Trust Receipt.

Paris accepted on April 4 Fcs. 36,500. 60 d/s Draft against L/C No. 1003 documents against Trust Receipts.

Guaranty Trust Co. presents Sight Draft with documents for 2,000 boxes Macaroni, L/C No. 5002, \$10,000.00 which we pay. (We deliver documents and accept Brown & Sharp's 90 d/s Draft on us, secured by Trust Receipt, \$10,000.00 which we purchase at 6% and  $\frac{1}{8}\%$  Commission and rediscount with Federal Reserve Bank @ 5%).  $\frac{1}{16}\%$  Commission on Sight Credit.

London and Paris charged us Value April 2 with cables sold April 1.

Enter through Journal our payment value April 2nd, \$130,805.77 for F. X. Bought April 1 and our receipts value April 2, \$32,014.06 for F. X. Sold.

We buy the following items which we remit for immediate credit and for discount respectively:

#### Checks

1006	£	12,650	@	4.85%
1007	£	6,875	@	4.85 $\frac{1}{4}$
1008	£	18,200	@	4.85%

#### 60 d/s Drafts

6011	Fcs.	20,000	@	5.23 $\frac{1}{8}$	Brown & Sharp on Martelle & Fils
6012	Fcs.	37,500	@	5.23 $\frac{1}{8}$	plus $\frac{3}{8}$ " " "
6013	Fcs.	37,500	@	5.22 $\frac{1}{2}$	less $\frac{3}{8}$ " " "
6014	Fcs.	81,250	@	5.23 $\frac{1}{8}$	" " "

We receive for collection from Brown & Sharp:

6007	£	350.	Demand Draft on Spencer, Ltd. London
6008	£	812.	Demand Draft on Trask & Co. Liverpool
6009	Fcs.	1,850	10 d/s on Petit & Co., Nantes
6010	Ptas.	1,500	3 d/s on Rivera Hnos. Madrid

We sell to Sundry Customers the following checks:

1009	£	2,400	@	4.86 $\frac{1}{4}$	, favor of Baker Bros.
1010	£	1,600	@	4.86 $\frac{1}{4}$	, favor Brower & Son
1011	Fcs.	10,000	@	5.19%	, favor Calars & Co.
1012	Fcs.	25,000	@	5.19%	plus $\frac{3}{8}$ , favor of Duval & Fils
1013	Glds.	8,500	@	40 $\frac{3}{4}$	, favor of Van Sandt & Co.

We receive draft advices from Incasso Bank:

718 \$ 1,200.00 order of Knauth & Son  
719 \$ 1,570.00 " Nachod & Co.  
720 \$ 850.00 " Kuhne & Bros.  
718 and 720 are presented and paid this day.

Payments are made and received for all items in F. X. Bought and Sold Accounts.

April 25.

We cable to London, Paris and Madrid to discount our remittances of April 1 sent for collection and credit. They discount at  $4\frac{1}{2}\%$  today, bills were accepted London April 12, Paris and Madrid April 14. Paris also discounts bills accepted April 25, Nos. 6011 to 6014.

Acceptance L/C No. 1002, £4,200 rebated to-day @  $2\frac{1}{2}\%$  Interest and  $\frac{1}{4}\%$  Commission, £ @ 4.86. Prepare bill to Brown & Sharp, Credit "Rebated Acceptances"; Enter on L/C Record date of acceptance paid and cross the acceptance.

We receive advice from London that £ 2,735 has been paid April 18 against L/C No. 1001 for 80 c/s Gl. Mdse. We bill Brown & Sharp @  $4.86\frac{1}{4}$  plus 6% interest and  $1/16\%$  commission.

Draft against L/C No. 1002, £5,806 has been accepted on April 18. We deliver documents against Trust Receipt.

We receive as requested advice by cable from Paris, Drafts Fcs. 32,000 and Fcs. 30,500 were accepted against L/C No. 1003 on April 18.

Brown & Sharp ask us to cancel L/C No. 1004.

We pay Draft No. 719, \$1,570.00 to-day, drawn by Incasso Bank.

We receive advice that London paid our checks.

No. 1001—April 13  
1002 " 17  
1009 " 24

Paris, Amsterdam and Berlin charged our checks of April 1 on April 14 to our accounts.



We receive check Hanover Natl. Bank, \$696.50 from Banco Nacional de Puerto Rico in payment of Collection Bill No. 6003. We deduct 1.75 for our charges and credit Brown & Sharp's account with net proceeds to-day.

We accept 90 d/s draft \$40,000.00, L/C 3658/5004 of Dodge Bros. for shipment of 20 Motor Trucks, and forward documents to Incasso Bank, Amsterdam.

April 30 and Month of May.

London credited Check No. 1001 on April 13, our checks Nos. 1006/8 on April 24 and collection bill No. 6007 on April 24, No. 6008 on April 28, deducting 1/16% for expenses for Liverpool collection.

We account for both collection bills to Brown & Sharp on May 8, @ 4.85½ deducting 1/8% collection expenses from net proceeds to the credit of commission account.

London Charges: April 29 £2,150, Sight Draft L/C No. 1001 which we collect on May 10 from Brown & Sharp @ 4.86 plus 6% Interest and 1/16% commission.

London credits Interest @ 3% in statement to be prepared and debits £1.5.6 for petty expenses.

Prepare reconciliation with Dollar (\$) amounts as shown in our ledger accounts after April 30. Convert balance at 4.86, ascertain profit and yield on Invested Capital.

#### COLLATERAL READING

- Bliss International Correspondence School Instruction Paper with Examination Questions (pamphlets—5 parts)
- Brooks Foreign Exchange Textbook
- Brown Foreign Exchange
- Escher Elements of Foreign Exchange
- Escher Foreign Exchange Explained
- Owen Foreign Exchange
- Shugrue Problems in Foreign Exchange
- Whitaker Foreign Exchange
- York Foreign Exchange