

5-1927

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### Recommended Citation

Fischer, Emil S. (1927) "Accounting and Auditing in China," *Journal of Accountancy*. Vol. 43 : Iss. 5 , Article 3.

Available at: <https://egrove.olemiss.edu/jofa/vol43/iss5/3>

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## Accounting and Auditing in China

BY EMIL S. FISCHER

In order to obtain a comprehensive understanding of accounting in China, attention must be given to the basic conditions which prevail in the far east regarding the possible field of activity of a foreign accountant. A brief historical digression may also aid the reader in clearly perceiving the situation of an alien practitioner in the orient.

The foreign expert or public accountant—or, in European terms, the chartered accountant, expert comptable or commissaire de comptes—generally finds his activity chiefly, if not entirely, among foreign merchants and industrial concerns established in China. The possibility of practising among Chinese concerns and institutions is limited, in fact practically negligible. The only occasion when it does occur is when the foreign interest in cases involving foreign loans of some magnitude causes the Chinese participants to attach to the enterprise a foreign auditor or auditing department to audit the moneys received and spent. In this category are placed the various government railways of China which in the aggregate comprise less than ten thousand miles of road, providing means of communication along the east coast of the middle kingdom. Therefore, the public accountant out here has little chance to obtain lucrative audit work from Chinese patrons, mainly because Chinese public offices and mercantile and industrial concerns all keep books according to Chinese style and habits, in Chinese characters and language—a language which no foreigner, with the exception of sinologues and masters of Chinese literature, has fully conquered. In this regard my own case is typical. I first arrived in China from America in 1894, and at that time among the foreign residents of Shanghai none would even attempt to learn Chinese except consular officers and assistants and a few others. However, I undertook the task for fully five years, with daily lessons in Chinese reading and writing. In spite of this training, although I can speak the ordinary patois with some freedom, I would be today incapable of making an audit, revision or investigation of Chinese kept books and vouchers without a native assistant. As a matter of fact, Chinese vouchers frequently come before me in my work for

foreign concerns and often my knowledge of the language permits me to pass them over in a general way, yet in many cases I need enlightenment from a Chinese clerk in order to be able to give my O. K.

It is necessary to go a little into the history of the interesting commercial life of the foreign merchant among the natives in order to obtain an understanding of the conditions out here. The present upbuilding of foreign business in China—a very slow process, indeed—dates from 1842, when after the so-called “opium war” Great Britain made a treaty with China which led to the opening of the first five treaty ports along the coast: Canton, Shanghai, Ningpo, Amoy and Fuchow. In addition to the opening of these treaty ports, the island of Hongkong was ceded to Great Britain, and this formerly small fishing village grew constantly bigger and bigger, until it has become the second or third largest transshipping port in the world. I shall not dwell upon conditions in Hongkong nor the present trouble of boycott by which shipping and commerce suffers there, as it can be only of a temporary nature.

Since 1842 Hankow and other leading ports, including Tientsin which for a long time has run second to Shanghai, have been opened by the Chinese government as places where foreigners are allowed to trade and to acquire property. There may exist now a hundred or more treaty ports but only a few of them are of sufficient importance to offer means of living to a public accountant under the conditions indicated earlier in this article. Before 1842 there was a reservation for foreigners at Canton and a similar center at the nearby Portuguese colony of Macao, where for several centuries aliens were forced to find their commercial contact with China. The first influx of foreigners made itself felt after the famous passage of the Cape of Good Hope by the Portuguese explorer Vasco da Gama in 1498, which brought as its sequence Spanish, Dutch and later British intercourse with the orient. So far as British efforts at trade with China were concerned, the famous East India Company developed business in Canton from about 1702 onwards, the French coming in 1728 and the Americans in 1784. Gradually also Scandinavian and Hanseatic towns took a share in the business. By the sea route active trade had existed between Alexandria and the far east before the Christian era, and trade by land had been carried on with Persia long before the time of Vasco da Gama.

Having scanned this gradual development of foreign intercourse and trade with China before 1900, or rather up to the outbreak of war between Japan and China in 1894, let us consider Shanghai, the most important of all Chinese treaty ports, which at that time possessed a foreign mercantile colony of only about 4,000 to 6,000 aliens. Today there are 20,000 to 30,000 foreigners in the Shanghai district in the midst of a Chinese population of more than a million. At that time there were proportionately less foreign residents in Tientsin, Hankow and Canton. These foreign merchants, in accordance with the treaties of foreign powers with China, were then all under consular jurisdiction, or—a better expression—under extraterritorial privilege obtained by treaties from 1842 onwards, and particularly by the expression of the Chefoo convention of 1876, by which no foreigner in China is subject to Chinese law as regards either his person or his property.

All these details will help clarify an explanation of the field of activity open in this section of the world to, say, an American public accountant. Even with the present considerable development of foreign trade in China, greatly augmented by the numerous new foreign business foundations during the last quarter-century and particularly since the end of the great war in Europe, the field of activity of the foreign public accountant is, generally speaking, peculiarly limited. In Shanghai, Tientsin, Hankow, Canton, Tsingtao or Harbin, places which have the largest foreign population in China, or even in Mukden, where there is a large colony of Japanese, the patrons in need of an accountant will nine times out of ten look for one who is of the same nationality as that under which the firm or enterprise is registered out here. This tendency is emphasized by rulings such as that recently instituted by the French government that auditors of French companies must be of French nationality, and the British ordinance of several years ago that managers of British business houses must be of British nationality. Therefore, when German interests are at stake a German accountant is preferred, because although most business houses out here keep books in English yet in a German house vouchers, correspondence or other documents written in German will continually appear and an auditor unfamiliar with the language will be as much at a loss before them as I am in auditing Chinese vouchers. All this shows how narrow the field is, and how necessary it is out here to be fully conversant with many languages. Then, too, there is the difficulty of ad-

hering in cases of need to all the laws which demand consideration. For instance, a case arose in 1914, when I was entrusted by the commercial attaché of the French legation in Peking with the administration of the estate of a deceased Swiss merchant who was registered there under French protection. This case plainly shows the variety of knowledge demanded, as many of the documents were not only in the French language, but also in German and in English and Italian and even in Russian. Collections of money had to be made from Chinese and foreigners, and the final division had to satisfy persons of many nationalities. Many other peculiarities might be pointed out relative to the work facing the public accountant in the orient. One peculiar condition to which an auditor out here has to give attention was mentioned by the writer at a convention of public accountants at Seattle in 1915. There I stated what attention the auditor must give to the variety of currencies prevalent in China, not only so far as his own district is concerned, but also to the hundreds of varieties of silver "tael currencies" in the large commercial towns of the Chinese empire. At times one finds exchange rates for the commercial taels prevailing, for instance, between Shanghai and Tientsin or Peking or Hankow and many other points where business houses in buying or selling products have to make or to receive transfers. I particularly spoke of commercial taels, the term by which taels in a general way are indicated in commercial transactions. But there is no fixed rule, and conditions between Tientsin and Peking may be such that instead of the so-called Kung Fa tael, that is, the high-grade commercial tael of Peking, some other low-grade commercial tael may prevail, and these two kinds of taels may mean a difference of touch of 2 to 7 per cent. The auditor making a final balance surely has to find out which kind of tael is to be considered in order not to show a too low or too high level of value to be approved in balances before him. There are in Peking, also, many other kinds of taels; for instance, the ministry of finance counts in the Ku-Ping tael of 1000/1000 fineness, and the customs administration counts in a similar fine product as agreed upon by treaties with foreign powers. All this may be very confusing when, for example, an agent of a New York fur firm remits moneys into Mongolia for the purchase of goods through Chinese channels. Such matters mean long-time practice; the conditions are such as I have not found elsewhere in my work in Brazil, or in the Argentine, or in Europe.

And even with all that has been said above, we are not at the end of the monetary difficulties which one has to face here in China, for there also exists a silver-dollar currency, chiefly used for the needs of smaller (though often in larger) transactions. Also, there is the subdivision of smaller silver coins of the dollar, which in the local market now figure, say, 12 ten-cent pieces plus 18 or 20 or more so-called "coppers" to the dollar. There are the copper coins, not those of olden days, but coins which are put on the market in millions by the government mints. Not long ago we used to get about 180 coppers for one big silver dollar; now, however, there is a prevalent rate of over 300 copper coins for one big silver dollar. This dollar, by a custom originating in former great imports of silver dollars from Mexico, still has the name of the "Mexican dollar," although now its origin is in China or Hongkong or Singapore, all three kinds running concurrently in the market. However, the Mexican dollar is attended by some advantages. Formerly when one went into the far interior of China, for instance, to the most western province of Szechwan, he had to carry along for his needs silver in bulk, taels-shoes of a weight of about 50 ounces. At present the situation is different, as is illustrated by my own experience of a trip in 1917 thousands of miles to the western sections of Szechwan into the Tibetan borderland and then into Kansu province. Wherever I went I could readily get along with Mexican dollars, although in certain sections the people would only accept one kind, and not all the kinds mentioned above.

All these coins and moneys which have been described are prevalent in accounts of foreign firms which the auditor may have to examine, with the exception that most minor transactions in small silver coins, in coppers and in "cash" (which will be described directly) are not generally considered in the principal accounts of a concern. Most firms allow expenditures involving these coins to be handled by a Chinese assistant, called the "comprador" with his force of "shroffs" and Chinese bookkeepers and other assistants, such as coolies. The comprador usually gets the privilege of gaining his own small exchange advantage for the handling of such moneys, and this advantage is commonly termed a "squeeze." It will be a long time before these conditions in China may be uprooted.

In addition to all the currencies whose general scope has been given, there exists one which no longer needs much considera-

tion: the "cash", which is a small, round, copper or brass coin with a small square hole in the center for stringing the pieces together. Nominally one thousand "cash" on strings were considered to be equal in value to one tael, or later to one Mexican dollar, but the rate fluctuates so, due to the multitude of usances in various parts of the empire, that it would be difficult to state what was its actual comparative value. Happily, this variety of currency, the daily-bread coin of the masses of the Chinese people, is disappearing more and more in the eastern or coast districts of China. The natives gradually have become accustomed to such coins as the coppers, and yet, when occasionally I have to cross a river at some distance from the coast, I will, of course, pay the boatman one, two or three coppers, while a peasant using the same ferry will pay one, two or three cash. But we no longer have seriously to consider such coin and the "squeezes" which could be made out of it.

During my activity as head accountant of the Deutsch-Asiatische bank in Shanghai (and it may be well to point out that most foreign banks out here have their own traveling auditors from home) from 1894 to 1899, I paid much attention to the study of what currency means in China, and before I left for my home in New York, I published a well received work, *Monnaies et Metaux Precieux en Chine*. Naturally I have always been interested in this question, and have therefore attempted to show its importance in the work of the foreign auditor in China.

The feeling among the few foreign public accountants out here is very friendly. The writer has had personal experiences which show a pleasant lack of jealousy or rivalry among the practitioners of many nations gathered together in the far east. There is, on the contrary, rather a fraternal feeling among the foreign accountants in China. They experience many common difficulties and are usually ready to offer aid to a fellow practitioner who needs it. I remember one occasion in particular when the influence of another foreign accountant proved of real value to me.

Lasting friendships have been formed between accountants whose acquaintance originated out here. The writer has, for example, maintained a constant and an intimate relationship with a practitioner, formerly a fellow worker in Tientsin, who has for many years been resident in Shanghai.