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Accountant in the Orient

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The Accountant in the Orient*

BY EMIL S. FISCHER

Having resided for many years in China and this being one of the few opportunities I have had to attend a meeting of the American Association of Public Accountants—although for fifteen years a member—I am glad to have a chance to address you briefly on accounting conditions in the extreme Orient.

China to-day is attracting a great deal of attention, largely because of the efforts which are being made to extend the trade of the United States with that country. This trade up to the present time has not been developed to anything like the same extent that has marked the growth of the trade of European countries. Doubtless the future will show great improvement, and I have no doubt that American organizations will open branches and enter upon activities throughout China. Following the growth of American trade in the East it is probable that the American accountant will be called upon to perform onerous duties.

Accountants in America, with their wide range of activity, would be somewhat amazed by the peculiar conditions which we have in China.

The foreigners who are living in the treaty ports are only a handful of men, most of them doing a fairly profitable business with the Chinese population of those ports and the surrounding districts. The treaty ports as you know are places which have been opened for foreign commerce, where we are allowed to reside, acquire property and transact business in accordance with the treaties between various foreign powers and China. To-day there are about one hundred such treaty ports, but only in the larger, such as Shanghai, Canton, Hankow and Tientsin, are there any considerable numbers of foreign residents and merchants.

Most of the treaty ports are of minor importance and some are of practically no commercial interest whatever. Nevertheless,

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the effort to develop trade in China compels many foreign houses to keep agents and branches here and there over the widely outspread Middle Kingdom, and from time to time it is the duty of the auditor of such organizations to visit the places where business is transacted. In the case of foreign banks also the auditor is called upon to make long journeys and visit innumerable places.

This condition would not differ greatly from that in the United States if there were not such a variety of customs and usages in the various parts of China. For example, in Tientsin the currency is different from that in Shanghai; again, Hankow has a different currency; Peking another; and Canton has another and most peculiar currency which is partly inflated paper and partly silver. While Shanghai has its Shanghai taels, Tientsin has its commercial and a few other kinds of taels. The same conditions prevail in Hankow and in practically all the other ports.

In spite of the difficulties which have to be encountered, many flourishing businesses have been established and insurance companies and similar organizations are active in the greater part of the country. Some of these enterprises transact business and collect money in all sections of the country. If the men in charge were new to their work and did not understand the variation of currency, in some instances they accepted inflated paper as of actual cash value and thereby led to a loss from 20 to 40%, which was discovered when the audits were made.

It may be of interest to explain somewhat more fully the problem of currency and business transactions generally in China. Laborers, known as coolies, are paid in so-called copper cash which is subject to great fluctuations in exchange. The nominal value is about a thousand to one Mexican dollar. As the Chinese government in the last two decades has tried to change its system of currency the coining of copper cash has been abandoned. This gives occasion to a fictitious exchange rate between actual current copper cents, one of which is nominally ten cash.

The laborer in Shanghai receives between thirty and forty copper cents daily wages. A foreign concern such as we have in the treaty ports can make enormous profits in exchange by buying the copper cents—which are quoted in the market daily at rates from 125 to 130 or more for one local silver dollar. These exchange transactions have gradually been centered at the treaty

ports and business men there are becoming accustomed to trade in Mexican dollars or copper cents or inflated paper and small silver coins, mostly of ten and twenty cent denomination, having no fixed ratio to other units of currency.

When we change a silver dollar in China we generally go to a so-called cash shop, where we will receive eleven ten-cent pieces for one silver dollar and in addition from five to ten copper cents. You can therefore see how easy it is to make defalcations, especially on the part of shrewd Chinese assistants, and how keen must be the investigation in order to bring to light some of the petty thefts which are almost inseparable from business in China. The Chinese imagines that he has a right to cheat the foreigner. If you go to an hotel and change a silver dollar the Chinaman giving you the exchange has a right to give you only ten ten-cent pieces, while if you go to the next door cash shop you will get eleven ten-cent pieces and a few coppers beside, and the exchanger will make a good margin of profit.

If this complication of financial affairs were restricted to cash, copper cents, small currency and silver dollars the auditor would not have much trouble in regulating conditions by keeping various cash books of each denomination. There is, however, a much greater difficulty which arises from the variation of tael currencies between the various ports. You ask what is a tael? This question you may ask of many of the foreign merchants in China who have resided there for a score of years and they may never be able to give you a reply. Still all the great bulk of business (running into millions) is done only in the local commercial tael currency.

Anyone would be easily deceived in closing a contract and not stating the particular tael currency involved. It is here that the auditor must exercise peculiar care when the accounts are drawn up and he is called upon to reconcile the accounts of agents or branch offices in their relation to the accounts of the main office. For instance, the nominal difference between the commercial currency in Shanghai (the Shanghai tael) and that of Tientsin (the hang ping hua pao) is five per cent; that is to say, the Shanghai tael is of less fine silver than the commercial tael of Tientsin, so that one hundred Tientsin taels are equal to one hundred and five Shanghai taels. But even here the difficulty does not cease, for there is no fixed relation between the various currencies, and the exchange varies according to the time of

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year and the balance of trade. While the ratio is at times as low as 100 to 104 between the two points mentioned it rises at times to the ratio of 100 to 107.65.

Another interesting point to be remembered is that there are no single pieces of one tael. Such things do not exist any more than the mill of American currency. The tael is merely a book unit of value and the local silver currency is a mixture made up of imported American and Mexican pure silver ingots with an additional alloy. They are not made in any regular standard size, but are of irregular weight. You simply receive a piece of silver which has a peculiar form like a Chinese shoe and which the foreigners call a "silver shoe." Most of these weigh a little less or more than fifty taels, or about four and one-half pounds, and in accordance with the tested fineness and weight a certain number of silver shoes will have the value of a certain number of locally and officially recognized currency taels. At one time in Tientsin when the silversmiths suddenly turned out silver of inferior value the foreign merchants and bankers were on the verge of losing hundreds of thousands between the book value of such taels as were carried in the bank accounts and the actual intrinsic value of the coins which they received.

All these and many other peculiar conditions have to be taken into consideration when auditing the accounts of any business which is carried on in China. If I had not had many years' experience in a Chinese bank I doubt if I should ever have been able to overcome the difficulties of currency problems which have confronted me of recent years.

I have purposely refrained from describing any of the difficulties of commerce aside from those connected with currency, but I may merely mention that in China the foreign merchant has to keep books, observe laws and customs which are prescribed by the country under which his firm is registered, and you will readily see that this adds still another puzzle to the accountant in the Far East, as he finds there firms of British, American, German, French and other foreign origin.

Another difficulty is the variation in the credit customs of the various nations concerned, but this is a subject far too large to be discussed in the few moments which I have at my disposal.

I am very glad indeed to have had this opportunity to appear before the American Association and to explain even briefly a

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few of the complications which confront the public accountant in the Far East. There are few accountants practising in China, but as business increases and particularly as American trade grows throughout the Celestial Empire, I trust that it will be my fortune to meet many of my fellow members. I shall welcome them with the utmost cordiality, but I confess that I do not envy them the task of acquiring an accurate knowledge of the most complex question of currency and finance in China.