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CORRESPONDENCE

"An Unworthy Advertisement"

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: The editorial on page 4 of your January issue, entitled "An Unworthy Advertisement," criticizes the circulars distributed by the University of Pennsylvania Press on Kenneth MacNeal's *Truth in Accounting* as a "vicious attack on the accounting profession," and demands an apology from the publisher.

The circular was prepared by a reputable advertising agency on the basis of the contents of the book and the record of its author; its object was to create interest in the volume, but it was not intended to reflect unfavorably on the accounting profession.

Yours truly,

PHELPS SOULE, *Manager*
University of Pennsylvania Press
Philadelphia, Pa.

Foreign Exchange Rates

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: In reference to the article entitled "Foreign Exchange Rates" in the February, 1940, issue of *THE JOURNAL OF ACCOUNTANCY*, I am pleased to note that the research department of the American Institute has brought out a very important factor in the translation of foreign currency accounts in compiling United States dollar consolidated statements, namely, that it is not possible to state any general rule as to the rates of exchange to be applied in such conversions but that an appropriate rate must be selected in each case to reflect as closely as possible the actual situation. I believe this is a very important point that has been overlooked both by concerns engaged in international business as well as by public accountants auditing the accounts of such concerns.

In the statement of foreign exchange rates I note the use of certain "New York market rates" which are not consistent with the facts.

GERMANY

The German reichsmark rate given as 0.400840 is stated to be a nominal rate with no firm rate available, but the nominal rate understood to be reasonable. I believe that it is true to say that the rate is reasonable for remittances to Germany as of December 31, 1939, although by proper handling and negotiation, due to the necessity for strong foreign currencies in Germany, better rates can be obtained than that shown. As for buying United States dollars with reichsmarks, I feel sure that an independent internal business could not hope to buy 40 cents for one reichsmark. There are other rates, *i.e.*, official rates, in existence at December 31, 1939, which I believe should be given. Registered marks were 8 cents, and blocked marks 9 per cent of the above official rate, or approximately 3.6 cents.

ITALY

The rate of 0.050471 is also the official rate of the lira. Travel lire at that time were -.455 and blocked lire were being freed at rates depending on the quantity of lire which were being freed by individual transactions at between 2 cents and 3¼ cents per lira. The lower rates in such transactions, however, may or may not have had the approval of the authorities, as same were for relatively small amounts. Such transactions in blocked lire might be closely estimated at 3 cents.

HUNGARY

The rate shown for the pengo, 0.176012, represents the official rate of the pengo less a premium of 53 per cent. Actually the calculation is somewhat wrong in the rate given as the actual rate is 0.17215 on the above basis. There are also in this case other rates in existence, blocked pengo, 0.1053, pengo for refugee purposes are sold by the Hungarian National Bank to relief agencies at between 0.09 and 0.105 (the actual rate depending upon the currency-purchasing pengo). Divi-

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dend pengo are approximately 0.08 but very little business is done.

RUMANIA

The rate for the leu, 0.007016, is approximately the rate at which one can buy lei at the Rumanian National Bank. However, an exchange market has been set up under new exchange regulations upon which the quotation has ranged from 225 lei to the dollar to 270. In addition to the official exchange market referred to above, separate deals are arranged in certain instances and the rates of exchange for such deals at the end of the year approximated 300 lei per dollar. Such deals, I should add, have official approval. The black market, of which of course no cognizance should be taken in preparing consolidated accounts, was approximately 540 lei to the dollar at the end of the year.

YUGOSLAVIA

The rate for Yugoslavia, 0.022647, is again the actual official rate for the dinar through the National Bank and is subject to the same comments as on the leu above. The effective rate as given by the United States Department of Commerce, 0.014 per dinar, is in my opinion a more representative rate.

MEXICO

The rate given for Mexico, 0.16955, bears an asterisk indicating that this is a nominal rate, whereas actually it is the effective rate of transfer as currently quoted on the New York market and represented approximately the actual rate in existence at December 31, 1939.

BRAZIL

The rate shown for Brazil, 0.05034, is a buying rate for milreis, the selling rate for milreis, *i.e.*, affecting transfers of funds, at December 31, 1939, was actually 0.04795 per milreis, which is brought about by a 5 per cent tax deduction from the selling rate. It appears to me that the statement by the research department of the American Institute might have flagged the fact that in taking the value of certain currencies, consideration should be given to adjusting the rates quoted by the Federal Reserve Bank for tax deductions, etc.

CHILE

The rate given for the peso, 0.04, is properly asterisked to show that it is the export

draft rate. As of December 5, 1939, a more effective rate of exchange was introduced in Chile which is called the "D.P." rate which at December 31, 1939, was 0.03212. In the majority of cases it would be more appropriate to use the D.P. rate than the export draft rate.

Despite the above comments on the table shown, it is very pleasing to note that research is being done in this matter by the Institute and that facts heretofore left to the uninitiated in the mysteries of foreign exchange are being given satisfactory publicity. Trusting that the above comments are of interest to you, I remain,

Yours truly,

O. C. BUCHANAN

New York, N. Y.

[The Institute's Research Department advises us that Mr. Buchanan's letter is the most complete of several communications received, indicating variations from the rates listed in the note in the February JOURNAL OF ACCOUNTANCY. That note was designed to call attention to the two main classes of rates prevailing; it did not undertake to give an exhaustive list of rates more or less available for special purposes or under special conditions. Mr. Buchanan's letter gives further evidence of the uncertainties, and of the need for care in selecting the appropriate rate in particular circumstances.]

—Editor.]

Auditing Labor Unions

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: Under date of January 16th we received from you a reprint of an editorial from THE JOURNAL OF ACCOUNTANCY, entitled "Auditing Labor Unions." The presumption gained from the reading of the editorial is that labor unions do not have their books audited by certified public accountants.

While we can appreciate your interest in the increasing use of the services of your members, we would point out to you that this is not a correct statement. To my knowledge the majority of our international unions affiliated with the American Federation of Labor regularly employ the services of certified public accountants, and regularly report their findings to their members. Our own organization has been regularly audited ever since its inception in 1892. The books are now audited by a certified public accountant every six months and a complete

report is sent to each of our local divisions. Our constitution and general laws provide for the auditing of the books of local divisions by certified public accountants.

The Trade Union Movement does not need the advice of the Bethlehem Chamber of Commerce, the Merchants' Association of New York, or other employer groups upon this subject.

Yours truly,
JOHN J. WOODS, *Editor*
Motor Conductor and Motor Coach
Operator

Detroit, Mich.

[Our editorial was not intended to imply that no trade unions are at present audited by independent certified public accountants, but to encourage extension of the practice and publication of the audited financial statements. The American Federation of Labor reports to us that it has not compiled information showing which affiliated unions have their accounts independently audited. Following is an excerpt from a booklet issued by the Federation to directly affiliated local unions, containing instructions regarding bookkeeping methods and audits:

AUDITING OF ACCOUNTS

"The local union should provide an auditing committee from among the members to audit the accounts at regular intervals for the purpose of reporting to the membership upon the state of the finances of the local and a copy of the report mailed to the Secretary-Treasurer of the American Federation of Labor. The committee should report any faulty bookkeeping methods to be corrected immediately.

"The accounts of the local union should be kept in itemized record form. All cash receipts should be individually recorded. Records of all moneys paid out should be supported by properly approved vouchers with the receipted bills or a receipt from the person receiving the money. Only those bills should be paid that have been previously approved by regular action of the local union. Financial officers at the regular meetings should furnish a detailed report in writing of

the transactions that occur between meetings. These reports should include the amount of initiation fees, dues and all collections. All moneys paid out should be reported upon. These financial reports should be filed with the records of the union so they may be available for the information of the auditing committee.

"The bookkeeping methods outlined here-in enable the union to maintain a clear record of all receipts and expenses; they simplify the work of the auditing committee and assist them in furnishing a comprehensive report upon the accounts to the membership."
—*Editor.*]

Endorsement of Checks

Editor, THE JOURNAL OF ACCOUNTANCY:

DEAR SIR: The item in the Accounting Questions department of the February issue of THE JOURNAL OF ACCOUNTANCY, regarding the nonendorsement of checks strikes a responsive chord in my own experience.

Two of my clients have large accounts in a trust company in New York, in different branches. But it is a rare month when one of them does not have a nonendorsed check clear; and it took a long and at one time acrimonious struggle to get the bank to accede to the proper request for correction. Its attitude is completely indefensible at law, as well as courtesy, and contrasts strongly with that of good banks.

One of these two clients also has an account in another bank. Last autumn, for the first time in ten years, a nonendorsed check cleared that bank. Not only was the correction speedily supplied; an apology came with it. In the case of another client a bank let a whole block of checks clear unendorsed; and when it was called to the bank's attention, there was plenty of action and humble apologies. The clerk responsible almost lost his job.

I trust this may be of interest to your correspondent and to your other readers.

Yours truly,

LEWIS GLUICK

New York, N. Y.