ACCOUNTING PROCEDURES SPECIFIC TO EXPORT OF GOODS ON ITS OWN BEHALF WITH SHORT-TERM COMMERCIAL LENDING

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Abstract  
Considering that, in addition to the commercial operations performed with entities located in countries of the Community, the firms in our country also carry out commercial transactions with partners from other customs territories, operations that involve the two specific flows: export and import of goods, the current scientific approach lies in developing accounting models specific to the exports of goods on its own behalf with short-term commercial lending, research to be made in close accordance, on the one hand, with the specific tax treatments, and, on the other hand, with the specificities related to the economic and financial regime, concerning the economic relations of a foreign trade company with its partners, the flow of goods exported and hence the transport made, and also the entity’s financial relationships with internal and external partners. The purpose of this article, which belongs to an extensive research of the complexity and diversity of foreign trade transactions, is, in addition to developing accounting models specific to the different ways of conducting these businesses, to identify, by comparison, the best alternatives in the light of foreign trade company.

Keywords: accounting models, export, on its own behalf, lending, short-term.

JEL Classification: H32, H87, M40, M41, M49

1. Introduction

The scientific approach, regarded as a keynote of the research work developed, was carried out in the context of economic, financial and legal changes manifested in the international markets, in a very special way, over the last two decades and aimed at improving the quality and involvement of accounting information in the process of permanent and effective management of foreign trade transactions, so that its specific tools and procedures should facilitate economic decision making and risk management.

The fact that the export of goods, regardless of the method and manner of implementation, is not taxable in terms of value added tax is a reason according to which entities should be interested in carrying out such operations that do not require the invoice of delivery with value added tax and payment of a liability to the general consolidated budget before cashing the value of the output VAT on such sales, as it happens at present, in the domestic supplies of goods, thereby avoiding asset funds over a period between the budgetary liability due date and the date on which the debt is collected. In addition, the entity may fully recover from the state budget the value added tax related to the purchases from domestic suppliers and the supply of services performed by them, unless the entity, in addition to exports, carries out exempt transactions without deduction right, situation which reduces the amount to be recovered as the value added tax deduction is made on a pro rata basis. [8]

Although the counterparties have all the 11 delivery terms that they can choose, depending on the purpose followed, in carrying out foreign trade transactions, since our country’s statistical returns conducted through the National Statistics Institute take into account in determining the value of goods delivered outside the country, the actual FOB prices and in determining the value of the goods purchased outside the national territory, the actual CIF prices, values that are reported, as appropriate, by entities or other state institutions, is an argument that entitled us to use the two values with priority in conducting the research. [4, 9, 10]

2. Specificities of exports of goods on its own behalf with commercial lending

The exports of goods on its own behalf with commercial lending is different from the export of goods on its own behalf with collection at sight in that the moment of external invoicing and delivery of goods is separated from the
moment of receipt of their value, meaning that a period of time interposes between the two dates, in compliance with the contract terms. The main reason leading to this mode of delivery is the lack of financial resources of foreign buyers, especially in the event of sales whose volume, complexity and values are high.

If we look at commercial transactions related to the export of goods from the perspective of setting the counter value of the goods sold, then it must be mentioned that the international supplies of goods have certain peculiarities, when the sale is made on its own behalf on trade credit, features which concern both the economic relations, but especially the financial reports of the foreign trade company (FTC) with internal and external counterparties. [2, 5]

Thus, in order to allow the normal development of international trade and not to create financial imbalances in the vendor's management, due to the immobilization of funds corresponding to the cost of goods sold, determined by the lack of available funds of the foreign customer, in the practice of carrying out the transactions related to international trade there have been developed both financial instruments and enforcement mechanisms, intended to ensure the financial resources for the smooth running of this activity, tools concerning the completion at the seller of the fixed assets in the goods delivered, through interest-bearing bank loans and recovery of such these expenses from the foreign customers, for the period of the loan.

However, if we look from the exporter's perspective, the financial instruments give FTC the opportunity of being in a double stance: on the one hand, it receives loans from banking units (bank loans), through current account or separate loan account for payment of the counter value of the goods purchased from domestic suppliers, and on the other hand, it provides loans to foreign customers for sales of goods with deferred payment (trade credit).

Referring to the period for which they are granted, loans are delimited in:

- **short-term loans**, whose grant period is up to one year;
- **long-term loans**, whose grant period is over one year.

In this context, the foreign price also includes the interest on the commercial loans granted by FTC to the foreign customer, interest which is calculated differently depending on the time period for which the loan is given and subject to the account 766 “Interest income” even if it is included in the foreign price, amount which comes to balance the expenses on the interest on bank loans received by FTC (account 666 “Interest expense”).

If the interest received from the buyer is greater than the interest paid to the banking unit to finance sales on trade credit, then the difference is reflected in the management of FTC which delivers goods on its own behalf, thus contributing to favourable results of the entity. However, if the foreign customer pays the commercial loan in advance, then the same is granted a price reduction called discount, as long as this payment option before maturity is provided for in the international contract of sale, case which involves the account 667, “Discounts granted”.

Thus, the amount of the foreign price is reduced by the discount, decreasing in the same time the financial burden of the exporter recovering in advance the value of goods exported and pays back the loan before maturity, a case which also leads to a reduced financial burden regarding the payment of interest to the funding bank.

We can not help noticing that, in accounting terms, the crediting period of international sales of goods influences the method of recording in the FTC accounts, motivation behind differentiated approach of delivery, and the term loan is the scope of this scientific approach. [1]

3. Accounting models specific to exports of goods on its own behalf with short-term commercial lending

This embodiment of exports of goods usually applies to general goods and is characterized by the fact that the value of exported goods is received at a specific time, up to one year, which is entered in the commercial invoice, with the possibility of using commercial bills, both as payment and credit instruments, and means of guaranteeing.

In terms of accounting, the records for the export of goods with trade credit term of up to one year are similar to the sales made outside the Community on its own behalf with collection at sight; the differences regard the aspects related to how the export is funded, which requires the use of accounts specific to short-term bank lending through separate loan accounts or through the current account. [3]

Case 1. Funding is made of short-term bank loans granted by separate loan account

In this case, the specificity of accounting models is given by the accounts used for highlighting the financial revenue and expenditure involved in exporting goods on trade credit on its own behalf, without excluding the accounts used to reflect the debts specific to the entity’s lending by financial and banking institutions.

In this context, in order to record in the accounts the operations related to the process of carrying out the export done on its own behalf with its funding through short-term bank loans granted by separate loan account, we believe that a FTC contracted on 20 September 2011 a bank loan for four months, in the amount of RON 20,000.00, with an annual interest rate of 12%, an amount which ensures the payment of the acquisition cost of the goods purchased on the domestic market for exports, goods that are delivered along with the acquisition from the warehouse of the production unit to the foreign customer in Turkey, for a sales value of € 8,000.00 under the gross FOB, with an interest rate included in the external price of goods, at the fixed interest (K) of the loan agreement, 7% per year.1
In compliance with the agreement concluded with the banking unit, the loan recall and interest payment will be made at the end of the crediting period (20 January 2012), when the value of the goods delivered to the foreign partner will also be received.

The operations related to exports of goods on its own behalf with short-term loan, whose funding is achieved through separate loan account, include, in addition to the exports made on its own behalf with collection at sight, records specific to lending by banking units, operations that in the order of logical sequence of export performance include the following entries, made during the period of the short-term bank credit: [7]

the purchase of goods from the domestic producer at the price of RON 20,000.00, with VAT of 24% (RON 20,000.00 x 24% = RON 4,800.00), with their concomitant delivery from the warehouse of the domestic provider, without using the account 371 “Goods”, because, in the flow process, goods shall not fall under the warehouse of FTC or the account 357 “Goods for resale at third parties”, because the goods are delivered to the foreign customer with their invoicing to FTC:

\[
\begin{align*}
\text{607} & \quad \text{“Goods for resale”} = 401 \quad \text{“Suppliers”} = 24,800.00 \\
\text{4426} & \quad \text{“Input value-added tax”} = 20,000.00, 4,800.00
\end{align*}
\]

receipt of the short-term loan, corresponding to the acquisition cost:

\[
\begin{align*}
\text{5121} & \quad \text{“Cash at bank in lei”} = 5191 \quad \text{“Short-term bank loans”} = 20,000.00
\end{align*}
\]

debt payment to the domestic provider:

\[
\begin{align*}
\text{401} & \quad \text{“Suppliers”} = 5121 \quad \text{“Cash at bank in lei”} = 24,800.00
\end{align*}
\]

Given that the external delivery is made in gross FOB, then the external invoice for internal use, (Table no.1) which also has the role of export calculation sheet contains, in addition to the external value corresponding to the delivery condition, the composition of this value, respectively: the external value of net FOB goods and the foreign interest, for the determination of which the enlarged hundreds method is used.

**Table no.1 External invoice for internal use**

<table>
<thead>
<tr>
<th>No.</th>
<th>Specification</th>
<th>Currency value (Euro)</th>
<th>Value in RON (1 Euro = RON 4.2843)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Gross FOB foreign value</td>
<td>8,000</td>
<td>34,274.40</td>
</tr>
<tr>
<td>3.</td>
<td>Net FOB foreign value (1-2)</td>
<td>7,826</td>
<td>33,528.93</td>
</tr>
</tbody>
</table>

In order to establish the foreign interest we determine the recalculated percentage rate included in the foreign price (K*), according to the relation:

\[
K^* = \frac{100 \times K}{100 + k} = \frac{100 \times 7}{100 + 7} = \frac{700}{107} = 6.54\% 
\]  \hspace{1cm} (3.1.)

In this situation, the foreign interest (D) included in the price is calculated as:

\[
D = \frac{VE \times K^* \times t}{T} = \frac{8,000 \text{ euro} \times 6.54\% \times 4}{12} = 174 \text{ euro} 
\]  \hspace{1cm} (3.2.)

where:

- VE – is the gross FOB foreign value;
- t – is the crediting period expressed in months or days;
- T – is the year time expressed in months or days (360 days).

delivery of goods to the foreign partner directly from domestic producer's warehouse:

\[
\begin{align*}
\text{4111} & \quad \text{“Customers”} = \% 407 \quad \text{“Sale of goods purchased for resale”} = 34,274.40, 33,528.93 \\
\text{766} & \quad \text{“Interest income”} = 745.47
\end{align*}
\]

at the end of September 2011 the foreign exchange differences are calculated and recorded for unpaid foreign currency receivables, given the exchange rate set by the central bank, according to the last banking day of the month (30 September 2011):

- amount in RON on 30 September 2011: EUR 8,000 x 4.3533 RON/EUR = RON 34,826.40;
- amount in RON on the invoice date: EUR 8,000 x 4.2843 RON/EUR = RON 34,274.40;
- exchange rate difference (positive): RON 34,826.40 – RON 34,274.40 = RON 552.
Although the interest on the loan is provided in the agreement concluded with the banking unit throughout the contractual period and not monthly, however, so as not to entail the costs of January 2012 with the entire interest value, we suggest that it should be calculated and recorded each month in the accounts, solution that we are also arguing through the need to counterbalance through expenses the revenues from interests recorded since September, when the export took place, revenues that are part of the foreign price and are taken into account in determining the taxable profit for the third quarter.

The monthly reflection of the interest payable to the banking unit for the loan contracted, an amount determined by the simple interest formula ($D_s = \frac{P \times r \times n}{100}$), taking into account the number of months as crediting period (Monthly interest = RON 800: 4 months = RON 200), starting October 2011:

\[
\begin{align*}
\text{Interest expense} &= 5198 \text{ "Accrued interest on short term loans"} \\
&= 200.00
\end{align*}
\]

At the end of October 2011, the claims in foreign currency are assessed based on the exchange rate on the last business day of the month (10 October 2011) communicated by the central bank, time to calculate and record foreign exchange differences, as follows:

- amount in RON on 31 October 2011: EUR 8,000 x 4.3243 RON/EUR = RON 34,594.40;
- amount in RON on 31 September 2011: EUR 8,000 x 4.3533 RON/EUR = RON 34,826.40;
- exchange rate difference (negative): RON 34,594.40 – RON 34,826.40 = RON – 232.

\[
\begin{align*}
\text{Foreign exchange losses} &= 4111 \text{ "Customers"} \\
&= 232.00
\end{align*}
\]

The calculation and entry of exchange rate differences related to uncollected receivables in foreign currency at the end of November 2011, according to the procedure noted above, taking into account the exchange rate from 30 November 2011:

- amount in RON on 30 November 2011: EUR 8,000 x 4.3539 RON/EUR = RON 34,831.20;
- amount in RON on 31 October 2011: EUR 8,000 x 4.3243 RON/EUR = RON 34,594.40;
- exchange rate difference (positive): RON 34,831.20 – RON 34,594.40 = RON 236.80.

\[
\begin{align*}
\text{Foreign exchange gains} &= 765 \text{ "Foreign exchange gains"} \\
&= 236.80
\end{align*}
\]

At the end of the financial year, the uncollected receivables in foreign currency are evaluated, being brought to the exchange rate set by the central bank on 30 December 2011 (the last business day of the month and financial year 2011):

- amount in RON on 30 December 2011: EUR 8,000 x 4.3197 RON/EUR = RON 34,557.60;
- amount in RON on 30 November 2011: EUR 8,000 x 4.3539 RON/EUR = RON 34,831.20;
- exchange rate difference (negative): RON 34,557.60 – RON 34,831.20 = RON – 273.60.

\[
\begin{align*}
\text{Foreign exchange losses} &= 4111 \text{ "Customers"} \\
&= 273.60
\end{align*}
\]

From the analysis of the entries made in the financial year 2011, it is noted that in addition to the income (RON 33,528.93) and expenses of the operating activity (RON 20,000), of which the entity obtains a gross profit in the amount of RON 13,528.93, the final result is favourably influenced by the result obtained from the financial activity, represented on the one hand, by the difference between the interest contained in the foreign price of goods exported and the interest owed to the banking unit for the three months of 2011 (RON 745.47 – RON 600 = RON 145.47), and on the other hand, by the positive difference that is obtained from the monthly assessment of uncollected receivables in foreign currency (RON 283.20).

The collection of receivables from the foreign partner at maturity, with a positive exchange difference amounting to RON 220.80, calculated as follows:

- amount in RON on 20 January 2012: EUR 8,000 x RON 4.3473 = RON 34,778.40;
- amount in RON on 30 December 2011: EUR 8,000 x 4.3197 RON/EUR = RON 34,557.60;
- exchange rate difference (positive): RON 34,778.40 – RON 34,557.60 = RON 220.80.

\[
\begin{align*}
\text{Cash at bank in foreign currencies} &= 5124 \text{ "Cash at bank in lei"} \\
&= 34,778.40
\end{align*}
\]

\[
\begin{align*}
\text{Customers} &= 4111 \text{ "Customers"} \\
&= 34,557.60
\end{align*}
\]

\[
\begin{align*}
\text{Foreign exchange gains} &= 765 \text{ "Foreign exchange gains"} \\
&= 220.80
\end{align*}
\]

The repayment of the contracted short-term loan, including the interest due:

\[
\begin{align*}
\text{Cash at bank in lei} &= 5121 \text{ "Cash at bank in lei"} \\
&= 20,800.00
\end{align*}
\]

\[
\begin{align*}
\text{Short term bank loans} &= 5191 \text{ "Short term bank loans"} \\
&= 20,000.00
\end{align*}
\]

\[
\begin{align*}
\text{Accrued interest on short term loans} &= 5198 \text{ "Accrued interest on short term loans"} \\
&= 800.00
\end{align*}
\]
If, at the maturity of the loan, the entity had no cash in lei in order to repay the loan and the interest due, then the company had to participate in a bank auction in order to change in RON the currency collected from the foreign customer.

Assuming that the client, according to the contractual terms, makes the payment before maturity, the amount of interest included in the foreign price of goods is recalculated, situation which leads to a price reduction as discount, which affects the exporter's financial expenses. Thus, if the importer makes the payment one month before maturity, then the same has a price reduction amounting to €44 (EUR 440 x 4.2843 RON /Euro = RON 188.51), calculated using the same methodology as the foreign interest, namely:

\[
\text{Discount} = \frac{8.000 \text{ euro}}{12} \times 6.54 \% = 44 \text{ euro}
\]

In the accounts, the discount granted is reflected as follows:

\[
\begin{array}{c}\text{667 “Discounts granted”}\hfill \text{4111 “Customers”} \\
\text{188.51} \hfill \text{188.51}
\end{array}
\]

If we focus on records specific to the export of goods on its own behalf with short-term lending through separate loan account and we analyze the influence that the funding through short-term bank loans had on the outcome of foreign trade of goods, we can see that the interest included in the foreign price of the goods leads to a taxable income increased in the third quarter by the amount of RON 745.47 (account 766 “Interest income”), time when it is taxed, and the interest expense will be reflected each month in subsequent periods, although the payment of the liability is determined by the loan agreement at the end of the four months.

You should also note that the profit or loss for the period is also influenced by the positive or negative foreign exchange differences related to the interest included in the foreign price of goods, amounting to 174 euro, receivables to be evaluated monthly and that are included in the final balance of the account 121 “Profit(loss) for the period”.

Therefore, in order to eliminate this influence, we propose that the foreign interest should be invoiced separately, without being included in the foreign price of the goods, condition requiring its reflection in the category of financial income, when received, in direct correlation with the availability currency account, as follows (EUR 174 x RON 4.3473 = RON 756.43):

\[
\begin{array}{c}\text{5124 “Cash at bank in foreign currencies”}\hfill \text{766 “Interest income”} \\
\text{756.43} \hfill \text{756.43}
\end{array}
\]

In this situation, the foreign interest is separately followed through the existing records in the service dealing with exports.

**Case 2. Funding is made of short-term bank loans granted by current account**

Compared to the previous situation, when the short-term loan was received by separate loan account, requiring the use of separate accounts of bank loans, the loans granted by current account in order to finance exports on its own behalf with short-term lending, known as cash loans or loans financed on credit lines, involve the payment of the internal provider directly from the current account, as a ceiling, whose size is determined by the loan agreement concluded with the banking unit.

Therefore, repayment of the loan is carried out automatically at the maturity from the current account, as a regular payment or, where applicable, by periods of performance of the loan agreement, when the entity has cash and the interest thereon shall be calculated and paid monthly, only for the current account balance coming from loans.

If we use the data of exports of goods presented in case 1, then, from an accounting perspective, the differences that arise cover the following issues:

- the account 5191 “Short-term bank loans” is no longer used to reflect the bank loans received, the FTC may pay the domestic provider through the current account to the credit limit approved by the banking unit, without its prior funding, in which case the account 5121 “Cash at bank in lei” will present a final balance in hand, whose size corresponds to the cash credit granted;
- the monthly interest paid is calculated according to the number of days in which the account 5121 “Cash at bank in lei” has balance in hand and the account 5198 “Accrued interest on short term loans”, previously used as a debt account, is no longer used to reflect it, but directly the financial expense account, and the following accounting records shall be made:

\[
\begin{array}{c}\text{666 “Discounts granted”}\hfill \text{5121 “Cash at bank in lei”} \\
\text{200.00} \hfill \text{200.00}
\end{array}
\]

If we focus on how to collect the foreign receivables, then we can mention that there is the possibility of their settlement based on commercial bills (bills of exchange, promissory notes, checks), which are instruments of payment (for the importer) regulating the payment of receivables arising from business operations.

In this context, the exporter uses accounts specific to receivables on credit bills (account 413 “Bills of exchange receivable”) and receivable amounts (accounts: 5113 “Bills of exchange held to maturity”, 5114 “Bills of exchange forwarded for discount”, 5112 “Cheques”), which generates the following accounting entries:

\[
\begin{array}{c}413 “Bills of exchange receivable”\hfill 4111 “Customers” \\
34,274.40 \hfill 34,274.40
\end{array}
\]
Please note that the cambial loan receivables are also subject to monthly assessment based on the exchange rate communicated by the central bank on the last business day of each month, according to the methodology presented in trade credit receivables discussed in case 1 and the exchange rate differences affect the same accounts of income or financial expenses, as appropriate, the difference being that instead of account 411 “Customers” the account 413 “Bills of exchange receivable” is used, so that at the end of the financial year the value entered in the cambial receivable amounts to RON 34,557.60 with a total positive difference of RON 283.20, as with the trade credit receivables (account 411 “Customer” on 31 December 2011).

### Submission of commercial bill to the bank for collection unit at maturity:

\[
5113 \ “\text{Bills of exchange held to maturity}” = 413 \ “\text{Bills of exchange receivable}” \ 34,557.60
\]

Collection at maturity of the cambial credit receivable, with the specification that the positive exchange difference is maintained at the value of RON 220.80:

\[
\begin{align*}
5124 & \ “\text{Cash at bank in foreign currencies}” = 5113 \ “\text{Bills of exchange held to maturity}” = 765 \ “\text{Foreign exchange gains}” \\
& \text{34,557.60 \ 34,778.40 \ 220.80}
\end{align*}
\]

However, the commercial bills may be used as credit instruments, in which case they are sold to the banking unit and are converted into cash before maturity, a transaction which is called discounting and involves an expenditure incurred by the exporter known as discount rate.

In this context, FTC no longer resorts to short-term bank loans, the export financing being achieved by discount before maturity of the commercial bills, case which generates the following accounting entry, in the same with discounting, which occurs when the provider enters into possession of the commercial bill (the discount rate is determined by the banking unit at the interest included in the foreign value of the good of EUR 174 or RON 745.47):

\[
\begin{align*}
5114 & \ “\text{Bills of exchange forwarded for discount}” = 413 \ “\text{Bills of exchange receivable}” \\
& \text{33,528.93 \ 745.47}
\end{align*}
\]

The collection of bills submitted for discount, with no foreign exchange differences, because all operations are carried out in the same with the delivery:

\[
\begin{align*}
5124 & \ “\text{Cash at bank in foreign currencies}” = 5114 \ “\text{Bills of exchange forwarded}” \\
& \text{33,528.93}
\end{align*}
\]

In our opinion, the use of commercial bills is advantageous because the exporting entity may waive financing the export of goods on its own behalf by bank loans, with the possibility of entry into possession of cash against the payment of a fee, by discounting these financial instruments before maturity. Even if the commercial bills are not discounted, they are preferred by exporters because there is certainty that the value of the goods delivered is usually collected at maturity. If at the maturity of the discounted commercial bills the importer has financial difficulties, which do not allow the same to pay the debt related to the commercial bills issued upon the international purchase of goods, then the banking unit, which granted the discount loan, has the right to appeal the exporter.

### 4. Conclusions

We believe that the accounting analysis of the different ways of carrying out foreign trade transactions and hence the export of goods made in various forms has given us the chance to draw relevant conclusions that can guide the management decisions of foreign trade entities to adopt those forms to achieve external transactions that are deemed to be the best.

In this context, note that comparative research in terms of value added tax, export of goods and deliveries made within the Community, led us to the conclusion that all these operations are exempt from value added tax, with the specification that certain conditions must be met for the intra-Community supplies, conditions which give tax exemption and make difficult both the fiscal and accounting analysis, therefore they guide the management decision in favour of exports.

Therefore, in our opinion, the exemption from value added tax applicable to sales of goods outside the national territory is the reason for which these operations are preferred in the dispute with domestic supplies, the entities having the possibility of obtaining additional revenue, either by increasing prices to the competition level of the amount of the value added tax applied on the domestic market, or by maintaining low prices, in which case additional profit will be made from increased turnover due to higher flows.

Similarly, lending the exports of goods on its own behalf influences the accounting models, making difficult the procedure of achieving them, on the one hand due to the fact that, compared with the exports on its own behalf with collection at sight, the procedure of completing the international agreement covers a period of up to one year and, on the
other hand, the accounting procedures are more complex because they also include the management of short-term bank loans contracted by FTC.

5. References


1 If the foreign price negotiated with the client contains interest as well, then, in order to determine the foreign value of the goods under net FOB, the percentage share of interest is recalculated using the increased hundred formula.

\[ D = VE \times \text{Interest rate (12\%) x } t \times (4 \text{ months}) / T \times (12 \text{ months}) = \text{RON } 20,000.00 \times 12 \% \times 4 / 12 = \text{RON } 800. \]

3 This operation is repeated in the months: November and December 2011 and in January 2012.