ANALYSIS OF EXPORTS OF GOODS ON TRADE CREDIT CONSIGNMENT FROM AN ACCOUNTING PERSPECTIVE

PALIU - POPA LUCIA
PROFESSOR PHD
"CONSTANTIN BRANCUSI" UNIVERSITY OF TARGU JIU
e-mail: univers_cont@yahoo.com

Abstract

With the continuing diversification of international transactions, foreign trade companies (FTCs) are constantly preoccupied with using those ways allowing them to obtain higher results, even if, in case of complex exports of high volume and complexity, the lack of financial resources of foreign buyers leads to crediting of supply, either by the producing entities for export on consignment, or by FTC, for the export made on its own. In this context, always taking into account the specificities of the various forms of conducting the exports of goods, which, as we found in the research conducted, influence the accounting procedures, the target of achieving a critical study on accounting and taxation of the supplies of goods outside the Community area, aiming at identifying those forms and modalities that have a positive impact on the return of a FTC and on the statement of assets and cash flows, determined us to translate the entire research into accounting and tax analysis containing relevant conclusions for the proposed objective and purpose. Thus the management decisions of FTCs may be directed to those forms to carry out foreign trade transactions that, after analysis, are deemed to be the best.

Keywords: *export on consignment, accounting techniques, commercial lending, value added tax.*

JEL Clasification: *H32, H87, M40, M41, M49.*

1. Introduction

The export of goods on trade credit consignment has the same justification as the exports on its own behalf with commercial lending, namely insufficient financial resources of the foreign customer necessary to pay the value of goods purchased, especially if the sales are high, both in terms of volume, value and complexity. Thus there is a time lag between the external delivery of goods and the payment of their value by the foreign partner, according to the contractual terms (Ball and McCulloch, 1996; Graumann-Yetton, 1997; Paliu-Popa, 2012; Paliu-Popa and Ecobici, 2012). In this context, the decision as to achieve export of goods on consignment with commercial lending falls to the producing unit (PU), which is responsible for ensuring export refinancing.

The interest, as the cost of credit granted to the foreign customer is fully recovered from the FTC, as such value is received from the foreign customer (FC) (Ball and McCulloch, 1996; Popa, 2008). Given the financial assets involved in the export of goods on consignment with commercial lending, in what follows we intend to conduct an accounting analysis of these transactions from the FTC perspective. This research was done in conjunction with the tax requirements specific to these transactions and with the features related to the economic and financial system, so that, after an analysis compared to other ways of export subject to previous studies we should be able to detect those variants that allow a high profitability in the FTC (Andone and et. 2011; Paliu-Popa, 2012).

2. Accounting features related to the export of goods on consignment on trade credit

This time either, exports of goods on consignment on trade credit does not affect the management position of FTC that, in accordance with the contract clauses, must monitor and conduct internal and external settlements (Paliu-Popa, 2012). Thus, FTCs no longer use for accounting evidence the specific accounts related to exports of goods on its own with commercial lending, i.e.: 5191 "Short-term bank loans", 5198 "Accrued interest on short term loans", 1621 "Long-term bank loans", 1628 "Accrued interest on long term bank loans", 472 "Deferred income", 666 "Interest expense", 766 "Interest income", 667 "Discounts granted", accounts that are used directly by the producing entity contracting the short or long term bank loan, as appropriate, in order to finance the export of goods on consignment (Alexander and Archer, 2001; Paliu-Popa, 2012; Pratt, 2005).

However, for the exports on consignment on commercial lending, all the significant features seen in the export of goods carried out on its own with long-term commercial lending remain valid, features related to the producing units' collection of advance payments from the foreign partners for complex exports, by means of the FTC, in order to start the manufacture of the products to be exported using, for this purpose, the accounts: 419 "Advance payments from customers" and 4091 "Advance payments to suppliers for the purchase of inventories" in the FTC (Paliu-Popa, 2012; Vişan, 2009).

In turn, from the external value invoiced under FOB the foreign customers retain a warranty share for the proper performance, that in the event of defects within the warranty period, covers any expenses incurred to remedy them, warranty reflected in the FTC, with the account 2678 "Other long term receivables", amount to be forfeited from the producing entity, motivation requiring the use of the account 167 "Other loans and similar debts" (Paliu-Popa, 2012; Vişan, 2009).

3. Accounting techniques specific to lending exports of goods on consignment

By analyzing the specificities of exports of goods on consignment on trade credit, we may draw the conclusion that the accounting methodology for these deliveries is the result of combining the accounting models specific to exports of goods on consignment with settlements at sight with those arising from exports on its own on trade credit, but at a much simplified level, rooted in the fact that FTCs do not reveal in their accounts the results from selling goods or from financing exports (Paliu-Popa, 2012).

In this context, we note that the differences that occur compared to the other methods of export relate to the entries in the accounts of FTC of the foreign interest included in the value invoiced to the foreign partner (Paliu-Popa, 2012; Vişan, 2009).

Looking from this perspective, if the data on financing exports on consignment through short-term bank loans granted through separate loan accounts are those presented at the export of goods on its own with short-term commercial lending, therefore the *foreign invoice for domestic use*, that in addition to the external value of the goods supplied under net FOB also includes the external interest in the gross FOB (Free on Board) external value, is as follows (Benedict and Elliott, 2001; Black, 2004; Caraiani and Poteca, 2009; Paliu-Popa, 2012). FOB is the price at the border of the exporting country, which includes the value of the property, all transport costs to the point of embarkation, and all fees incurred for the property to be loaded on board.

S.C. Export-Import S.R.L., company subject to the study contracted on 20 September 2011 a bank loan over 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. The goods are delivered along with the acquisition from the warehouse of the PU 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. 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 be also received.

Foreign invoice for domestic use

Specification	Amount in currency (Euro)	Amount in lei (1 Euro = RON 4.2843)
Gross FOB external value	8,000	34,274.40
Foreign interest	174	745.47
Net FOB external value	7,826	33,528.93

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

Therefore, invoicing the goods sold on consignment to the foreign customer under the gross FOB delivery term, when the foreign interest is included in the price, is shown as:

	*		
4111 "Customers" (FC)	=	**401** "Suppliers" (PU)	34,274.40
	*		

If the value of foreign interest for the commercial lending is invoiced separately from the goods delivered, then it is followed using the stock records opened in the export department of FTC, and subsequently recorded in the accounts when received from the foreign partner with the goods, situation involving the accounting formula:

	*		
5124 "Cash at bank in foreign currencies"	=	**401** "Suppliers" (PU)	745.47
	*		

Since the interest is borne by the producing companies that contracted the short-term bank loan in order to finance export on consignment, then the amounts received representing the value of foreign interest is settled to producers with the net FOB value due in respect of the goods exported without FTC deriving financial income from the foreign interest included in the gross FOB value of the goods exported, nor interest expense for the cost of the loan contracted for this purpose.

If we consider the period for which the producer financed the export from a short-term bank loan granted through separate loan account, we see that, in connection therewith, FTC's receivables and liabilities in foreign currencies are evaluated monthly based on the exchange rate set and displayed by the central bank, corresponding to the last banking day of each month, in which context the positive or negative exchange rate differences, as appropriate, are also calculated and recorded, affecting the financial income or expenses from the foreign exchange differences.

As with other international trade transactions, the records providing specificity to the export of goods on consignment on short-term trade credit are complemented by the accounting items prepared for the export on consignment with collection at sight, covering both the invoice of the fee due to the exporting entity and the financial relations of FTC with foreign and domestic partners (Paliu-Popa, 2012).

The same applies if export financing occurs through a long-term bank loan, except that, this time, the producing entities financing the complex export collect cash advance payments from the foreign partners through FTC, before the commencement of manufacturing and provide warranties for the proper execution of the goods covered by the contract related to export on consignment with long-term trade credit.

If we make a comparative analysis, in fiscal terms of value added tax, the exports of goods and supplies made within the Community, without taking into account the specificities and characteristics for each method of trading, we may conclude that all these transactions are exempt from value added tax, with the specification that certain conditions that give tax exemption should be met for the intra-Community supplies.

4. Conclusions

Starting from the consideration that the supply of goods outside the customs territory of the European Union is not subject to taxation in terms of value added tax, regardless of the manner and method of implementation, we believe that entities should show interest in the conduct of such transactions that do not require the invoice of exports with value added tax and therefore its payment to the state budget, most times before collecting the debt, as it happens in 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 option, situation which reduces the amount to be recovered as the value added tax deduction is made on a pro rata basis.

Looking from this perspective, we consider favorable the method of making exports of goods on consignment, compared to the exports on its own, both in terms of simplifying the flow of goods exported, as they are no longer managed by FTC, and of the accurate reflection of own revenues in the turnover, without increasing this indicator artificially with income other than its own, as in the case of export of goods on its own.

By analyzing the specificities of exports of goods on consignment on trade credit, we can see that the accounting methodology for these deliveries is the result of combining the accounting models specific to exports of goods on consignment with collection at sight with those arising from exports on its own on trade credit, but at a much simplified level, rooted in the fact that FTC does not reveal in its accounts the results from selling goods or from financing exports. In the same time, the comparative research in terms of value added tax, of exports of goods and deliveries made within the Community, without taking into account the specificities and characteristics for each method of realization led us to the conclusion that all these operations are exempt from value added tax, with the specification that certain conditions that give tax exemption should be met for the intra-Community supplies. 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, and the entities may obtain 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.

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