

STUDY REGARDING THE EVALUATION AND RECOGNITION OF CLAIMS AND DEBTS AFFERENT TO INTERNATIONAL TRADING TRANSACTIONS

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Abstract

Taking into account the fact that the volume of the transactions performed by Romanian entities with partners from other European Union (EU) member states, as well as with partners outside the EU, are in a continuous increase, we aim at the continuous update of the accounting process concerning the operations of external commerce, in order to quantify as accurate as possible the effects of the currency exchange over the external commercial entities. Consequently, to ensure the comparability of the accounting data and information contained by their annual financial situations, uniform accounting principles and valuation methods are applied. The claims and debts can be introduced in the financial situation only when accounting regulations in force are evaluated correctly and recognized in accounting, which imposes the accomplishment of certain conditions which shall be presented in the content of this paper.

In the content of this paper are presented the aspects concerning the evaluation and recognition of claims and debts afferent to international commercial transactions, taking into account the national accounting regulations, as well as the European accounting directives. The provisions of these regulations have been adapted to the commercial activities of a foreign trade company and the way in which these activities are put into practice will be presented in a case study. The objective of this study starts from the premises that the accurate evaluation in currency of the commercial claims and debts leads to real and pertinent financial situations which supports the process of taking decisions in the development of new commercial transactions at international level.

Keywords: *evaluation, recognition, probability, claims and debts in currency, currency differences.*

JEL classification: *M40, M41*

1. Introduction

To accomplish the activities of exploitation (materialized into foreign trade activities), foreign trade companies (SCE) must engage in the social and economic environment, and thus, a multitude of foreign trade connections are created with the external suppliers or clients. These connections between SCE and its foreign partners are materialized in economical and legal reports which generate commercial claims and debts. Taking into consideration the major impact of the commercial claims and debts on the structure and the volume of the assets, we consider that the central position in a SCE database is occupied by the financial accountancy. Thus the information supplied by the financial accountancy, through the financial situations, are useful both for the management of the companies as well as for the partners with whom they engage in commercial relationships. For this reason, it is imposed for the evaluation and recognition of the commercial claims and debts to be accurate, observing the accounting regulations in force.

The recognition of an active element or of debts in the financial situations is made through the accomplishment, cumulatively, of two criteria:

- for the probability of accomplishing a future economic benefit (active asset), respectively of a resource output bearing economic benefits (debts) to exist;
- for the evaluation to be accomplished in a reliable method.

Consequently, a liability is recognized in the balance sheet at the moment that it is probable for an entity to accomplish a future economic benefit and it has a value that can be determined in a reliable method. The debts are recognized in the balance sheet when it is probable that an output of resources bearing economic benefits will result from the settlement of a present obligation and the value at which it is accomplished must be determined in a reliable method.

2. Study regarding the evaluation and recognition of commercial claims and debts for a foreign trade company

The evaluation of the claims and debts implies the determination of the values for which they are recognized in the balance sheet; this implies the use of an evaluation basis, such as the historic cost, the current cost, the value to settle, the actual value.

The concept of probability appears as a consequence of the existent incertitude in the environment where an entity develops its activity. In order to evaluate the degree of incertitude afferent to the future economical benefits we take into consideration the accounting information available at the moment of preparation of the financial situations. The recognition of a liability as active is justified when its cashing is probable, fault of any other evidence that can contradict this state of fact. We must also take into account the probability for a degree of uncollectability to appear, in the case of a multitude of claims; this is why the economical benefit is diminished by the recording of the claims expenditure which cannot be cashed in.

The claims and debts are recognized only when at the basis of the commercial transaction there is a contract and, as consequence, the entity has the legal right to receive the counter value of the transactions, respectively has the legal obligation to pay the counter value of the transaction.

In the case of the evaluation of the claims and debts afferent to the international transactions there are particularities imposed by the currency exchange; consequently, for the claims and debts expressed in foreign currencies must exist monthly evaluations following which we can observe exchange currency differences, recorded in the expenditure accounts or financial revenues. The recognition of the expenditures or revenues resulted from the differences of currency exchanges appear also as a consequence of the settlement of debts or claims in currency, value which is determined from the difference between the currency exchange course at the date of the transaction and the one at the date of settlement.

According to the Law of accountancy no.82/1991 (Chapter1, article.6) republished and updated, every economic operation must be consigned at the moment when it is effectuated, in a document that will be at the basis of the entries in the balance sheet having the quality of a justification document. For this considerate, we must state that the claims and debts in foreign currency are recorded in the balance sheet on the basis of the proving documents that attest them, both in lei as well as in currency.

The operations concerning the acquisition and the delivery of merchandise and goods, the services provided or other similar operations effectuated by an economic entity are registered in the suppliers or clients accounts. The commercial claims and debts recorded in currency are emphasized in accountancy both in lei, using the currency exchange course communicated by BNR at the date of invoicing, and in currency. In case that the acquisition of goods is concluded without the preparation of an invoice and these goods are delivered on the basis of a notification accompanying them, the entry in accountancy is made at the currency communicated by BNR, at the date of reception, following that the bill to be prepared at a later date.

When certain claims and debts expressed in currency or in lei are settled in accordance to a certain currency exchange course, differences that will have to be recognized as financial revenues or expenses may appear. If the settlement of the claims and debts in currency which generates differences at the exchange course are effectuated in a fiscal year, then the exchange course difference must be entirely recognized. On the contrary, when debts or claims are settled in a subsequent fiscal year, the differences that occur in the exchange course in every fiscal year with the occasion of an evaluation or a settlement. Consequently, the claims and debts expressed in currency and unsettled until the end of the fiscal year must be evaluated at the BNR exchange course of the last banking day of the fiscal year in cause. Also, the claims and debts in currency are evaluated at the end of each month thus generating revenues or expenses resulted from the differences in the currency exchange course.

Taking into consideration the volume of the transactions developed by Romanian entities with entities from other EU member states is in a continuous growth, we have turned to the continuous update of the external trade accounting operations, in order to quantify as accurate as possible the effects of the currency exchange course on the performances of the external trade entities. In the OMFO 3055/2009 is stated that “a transaction in a foreign currency is an expressed transaction or it needs to be settled in another currency then the national one (lei), including the transactions resulted when an entity buys or sells goods or services whose price is expressed in currency; it borrows or lends funds and the sums which are to be paid or cashed in are expressed in foreign currency; it buys or renounces under another form at its tangible goods, contracts or settles debts expressed in a foreign currency.”

The initial evaluation of the transactions in a foreign currency is performed at the exchange course settled by BNR at the date when the transaction is concluded. The eventual differences in the currency exchange course established between the date of the initial evaluation and the course at the date of the subsequent evaluation or that of the settlement of the claims and debts must be entered in the balance sheet in the month they surge. This way, we consider that the unitary application of the accounting principles is followed and the

economic reality regarding the tax calculation on the quarterly profit is accurately expressed. Consequently, the comparability of the accounting data and information included in the fiscal year situation is assured.

To exemplify, let us assume that a commercial entity which develops foreign trade activities performs in a period of time certain transactions in a foreign currency. On the basis of an advance invoice prepared by an Italian entity for a subsequent acquisition of merchandise, an advance of 6,400 € is paid at the date of 25th of January, following that after 10 days to receive both the merchandise and the invoice. Also, on the 25th of January a Chinese entity buys merchandise on the basis of an invoice in the value of 8,000 USD, with a maturity date of 60 days. In February the entity concludes a financial leasing contract in order to purchase some fixed assets in value of 40,000 €, the monthly instalment being of 1,500 €, of which 450 € represents the interest expressed in lei according to the exchange currency course established by BNR at the issuance date of the invoice. The reception of the fixed assets in financial leasing regime is performed on the 5th of February and the installment and the interest are billed monthly on the 15th of the month in cause.

Currency exchange courses established by BNR and which will be used in the establishment of the values of the claims and debts are presented in the table below:

Date of BNR currency exchange course	Course in €	Course in USD
25th of January 2013	4.3606 lei/€	3.2482 lei/USD
31st of January 2013	4.3828 lei/€	3.2332 lei/USD
4th of February 2013	4.3667 lei/€	3.2154 lei/USD
5th of February 2013	4.3764 lei/€	3.2321 lei/USD
28th of February 2013	4.3698 lei/€	3.3345 lei/USD
15th of March 2013	4.3940 lei/€	3.3636 lei/USD
26th of March 2013	4.4111 lei/€	3.4265 lei/USD
31th of March 2013	4.4154 lei/€	3.4455 lei/USD

Table no.1 – Situation of the currency exchange course established by BNR

Source: processed after: www.cursbnr.ro

1. The acquisition of merchandise in Italy with an advance payment generates the following entries:
 - a. On the 25th of January is recorded an advance invoice and it is paid at the course of 4.3606 lei/€ (6,400 € x 4.3606 lei/€ = 27,907.84 lei)

Debit	4091 „Suppliers – debtors for purchases of goods in stock exchange”	27,907.84 lei
Credit	401 „Suppliers”	27,907.84 lei

and

Debit	4426 „Deductible VAT”	6,697.88 lei
Credit	4427 „Collected VAT”	6,697.88 lei

Advance payment:

Debit	401 „Suppliers”	27,907.84 lei
Credit	5124 „Accounts in the banks in foreign currency”	27,907.84 lei

Clarification: Both entities are recorded in the Register of intra-Community market participants and, thus, this acquisition has been subject to the reverse taxing regime according to the Fiscal Code.

- b. At the end of January, the claim in foreign currency is evaluated at the course of 4.3828 lei/€ and the afferent difference in course is recognized: $[6,400 \text{ €} \times (4.3828 - 4.3606)] = 142.08$ (favorable difference)

Debit	4091 “Suppliers – debtors for purchases of goods in stock exchange”	142.08 lei
Credit	765 „Income from the differences in the currency exchange course”	142.08 lei

- c. after 10 days, on the 4th of February the merchandise and the invoice are received at the course of 4.3667 lei/€: $(6,400 \text{ €} \times 4.3667 \text{ lei/€} = 27,946.88 \text{ lei})$

Debit	371 „Merchandise”	27,946.88 lei
Credit	401 „Suppliers”	27,946.88 lei

And the reversal of the advance with emphasize on the afferent difference in the exchange course: $[6,400 \text{ €} \times (4.3667 \text{ lei/€} - 4.3828 \text{ lei/€}) = - 103.04 \text{ lei (unfavorable difference)}$

Debit	% 401 „Suppliers” 665 „Expenditure from the differences in the exchange course”	<u>28,049.92 lei</u> 27,946.88 lei 103.04 lei
Credit	4091 „Suppliers – debtors for purchases of goods in stock exchange”	28,049.92 lei

2. The import of merchandise in China generates the following entries:

- a. On the 25th of January the merchandise invoice is recorded at the currency exchange course of 3.2482 lei/USD ($8,000 \text{ USD} \times 3.2482 \text{ lei/USD} = 25,985.6 \text{ lei}$)

Debit	371 „Merchandise”	25,985.6 lei
Credit	401 „Suppliers”	25,985.6 lei

Clarification: For the imported goods customs duties and VAT are calculated at the customs value of the goods determined according to the currency exchange course valid at the date it passes through customs, according to the customs and fiscal legislation in force. The customs fees calculated increase the entry value of the goods ($371 = 446.01$) and is paid at the customs at the same time with the VAT ($4426 = 446.02$). In this case it is recommended that the bookkeeping of these taxes to be held on different analysis.

- b. At the end of January the debt in foreign currency is evaluated at the course of 31st of January and a difference in the exchange course is recorded: $[8,000 \text{ USD} \times (3,2332 \text{ lei/USD} - 3.2482 \text{ lei/USD})] = - 120 \text{ lei (favorable difference)}$

Debit	401 „Suppliers”	120 lei
Credit	765 „Income from the differences in the currency exchange course”	120 lei

- c. At the end of February the debt in foreign exchange is evaluated at the course of the 28th of February $[8,000 \text{ USD} \times (3.3345 \text{ lei/USD} - 3.2332 \text{ lei/USD})] = 810.4 \text{ lei (unfavorable difference)}$

Debit	665 „Expenses from the differences in the currency exchange course”	810.4 lei
Credit	401 „Suppliers”	810.4 lei

- d. On the 26th of March (60 days after the billing) the external debt is settled at the course of 3.4265 lei/USD, generating new differences in the currency exchange course: $[8,000 \text{ USD} \times (3.4265 \text{ lei/USD} - 3.3345 \text{ lei/USD})] = 736 \text{ lei (unfavorable difference)}$

Debit	% 401 „Suppliers” 665 „Expenses from the differences in the currency exchange course”	<u>27,412 lei</u> 26,676 lei 736 lei
Credit	5124 „Bank accounts in foreign currency”	27,412 lei

3. The acquirement of fixed assets in financial leasing regime produces the following accounting entries:

- a. On the 5th of February the acquisition of fixed assets and the afferent debt in the sum of 40,000 € is recorded at the course of 4.3764 lei/€: ($40,000 \text{ €} \times 4.3764 \text{ lei/€} = 175,056 \text{ lei}$)

Debit	213 „Technical installation, means of transport, animals, plantations”	175,056 lei
Credit	167 „Other loans and assimilated debts”	175,056 lei

- b. At the end of February, the debt afferent to the financial leasing is evaluated at the course of 4.3698 lei/€ with emphasize on the afferent differences in the exchange course: $[40,000 \text{ €} \times (4.3698 \text{ lei/€} - 4.3764 \text{ lei/€})] = -264 \text{ lei}$ (favorable difference)

Debit	167 „Other loans and assimilated debts”	264 lei
Credit	768 „Other financial revenues”	264 lei

- c. On the 15th of March is recorded the invoice regarding the installment and the interest of the leasing and its payment for the course of 4.3940 lei/€:

Installment = $(1,500 \text{ €} - 450 \text{ €}) \times 4.3940 \text{ lei/€} = 1,050 \text{ €} \times 4.3940 \text{ lei/€} = 4,613.7 \text{ lei}$

Interest = $450 \text{ €} \times 4.3940 \text{ lei/€} = 1,977.3 \text{ lei}$

Difference in the exchange course: $= 1,050 \text{ €} \times (4.3940 \text{ lei/€} - 4.3698 \text{ lei/€}) = 25.41 \text{ lei}$ (unfavorable difference)

Debit	%	8,172.84 lei
	167 „Other loans and assimilated debts”	4,613.7 lei
	666 „Expenses regarding the interests”	1,977.3 lei
	4426 „Deductible VAT”	1,581.84 lei
Credit	404 „Suppliers of fixed assets”	8,172.84 lei

and

Debit	%	8,198.25 lei
	404 „Suppliers of fixed assets”	8,172.84 lei
	668 „Other financial expenses”	25.41 lei
Credit	5124 „Bank accounts in foreign currency”	8,198.25 lei

Clarifications: The entity does not fit in the regulations concerning the VAT system of cashing introduced on the 1st of January 2013; consequently it will deduct the VAT written on the invoice by the leasing entity.

The evidence of the interests for the financial leasing is also held through the account balance 8051 “Interests to pay” which is debited at the beginning of the contract at the entire amount of the interest and during their payment the account 8051 is credited.

- d. At the end of March the debt afferent to the financial leasing is evaluated at the course of 4.4154 lei/€: $[(40,000 \text{ €} - 1,050 \text{ €}) \times (4.4154 \text{ lei/€} - 4.3764 \text{ lei/€})] = 38,950 \text{ €} \times 0.039 \text{ lei/€} = 1,519.05 \text{ lei}$ (unfavorable difference)

Debit	668 „Other financial expenses”	1,519.05 lei
Credit	167 „Other assimilated loans and debts”	1,519.05 lei

Clarification: The decrease of the debt afferent to the leasing will be performed for the next payments according to the exchange course at the date of the last evaluation, respectively of the last banking day of the previous month.

Consequently, the evaluation of the claims and debts in foreign currency and of those in lei expressed according to the currency exchange course and performed at the end of each month assures an accurate image up to date and represents the economic reality through the fact that the balance items known as claims and debts, but also the expenses and the revenues are accurately reflected in the balance sheet, thus observing the general principles of evaluation.

3. Conclusions

The type of accountancy used by the foreign trade companies is based on the general rules applicable to Romanian entities, established through the accounting regulations in accordance with the European directives. Starting from the idea that through the accounting of the foreign trade activities the financial and economic reports between the Romanian economic agents and the foreign economic agents are reflected, we can state that the national accounting system is completed by the lawful usages and international regulations in force. Thus, the purpose of this paper was that of presenting the particularities of the accounting system for the foreign trade companies and especially the accounting aspects afferent to the claims and debts resulted from the development of the foreign trade activities.

Taking into account the fact that the evaluation operation of the commercial claims and debts in foreign currency generates expenses and revenues, as applicable, which affect the profit and loss account, we think that not effectuating this operation can lead, as a consequence of a fiscal control, to the recalculation of the tax on the revenue. Thus, if as a consequence of the recalculation a higher tax on the revenue than the one declared is established, then increases for the delay will be calculated.

The subsequent evaluation of the commercial claims and debts in foreign currency is necessary to avoid the preparation of certain financial situations which do not correspond to the reality and show in a non accurate manner the accounting information used in the decision taking process and more.

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