

ACCOUNTING TECHNIQUES SPECIFIC TO EXPORTS OF GOODS ON ITS OWN BEHALF WITH LONG-TERM COMMERCIAL LENDING

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Abstract

Starting from the consideration that, under increasingly fierce global competition, no country can remain passive on the results arising from international commercial transactions, developing countries and thus foreign trade companies have developed in turn, financial and institutional mechanisms aimed at continuous improvement of their position in global trade, the context in which the export of complex goods, of high values is performed, operation that requires a great financial of those entities, covered by financing of the international delivery from bank loans whose repayment term is longer than one year.

Looking from this perspective, the scientific approach made at the entities carrying out foreign trade activities is aimed at developing accounting models specific to the export made on its own behalf with long-term commercial lending, procedures that will be formulated in congruence with the level and structure of the foreign price, the delivery term of the goods and the settlement term of debts or receivables, so that the accounting analysis should enable us to draw relevant conclusions that will help guide the management decisions to adopt those forms to achieve external transactions that are deemed to be the best.

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

1. Introduction

In an increasingly fierce global competition, no country can remain passive about the results to be obtained from international transactions; developing countries develop, in turn, financial and institutional mechanisms aimed at continuously improving their position in the world trade. Thus, in order to be able to carry out export of complex, high value goods, the amount of which can not be paid by the foreign customer upon delivery, foreign trade companies (FTC) resort to contracting long-term bank loans, usually on the domestic market, in order to finance the exports made.

Therefore, in accounting terms, the crediting period of international sales of goods influences their method of registration in the accounts of FTC, the accounting models are formulated in congruence with the foreign price level and structure, the delivery term of the goods and the settlement term of debts or receivables, as appropriate, always making a link between them and the accounts where they are reflected, so that the accounting and fiscal analysis made should enable us to draw relevant conclusions that will help guide the management decisions of foreign trade companies to adopt those forms to achieve external transactions that are deemed to be the best. [4, 5, 9]

The fact that the statistical returns made by our country through the National Institute of Statistics, take into account in determining the value of goods delivered outside the national territory, the actual FOB prices and in determining the value of the goods purchased outside the country, the actual CIF prices, are arguments that, once again, make us use the FOB delivery term, with priority for the export of goods on its own behalf with long-term commercial lending. [4, 10, 11] Note that the documentation made allowed us to draw a **conclusion** that stimulated our scientific approach, according to which the activities specific to foreign trade and therefore the discussion of the accounting problems that they generate, with the previous approach of fiscal issues, are topical and have clear prospects for expansion and improvement. [1]

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

If export on its own behalf with short-term lending covers general goods, ***the export made on its own behalf with long-term cu lending*** covers complex, high value goods, leading to external receivables whose settlement is made within a period exceeding one year, using the documentary letter of credit [2]

The complexity of goods subject to exports and their significant value require a high financial effort from the exporter, entitling the same to an advance payment request from the importer, which is usually about 10-15% of the net FOB value of the goods in compliance with the external agreement signed, payment to be transferred on to the manufacturer prior to releasing such goods to manufacturing.

Referring to the accounting techniques specific to export of goods on its own behalf with long-term commercial lending, please note that they are influenced both by the *peculiarities of export financing and the method of settlement of goods with domestic suppliers and foreign customers*, relating to: [2, 6, 7]

✦ the goods to the domestic producers are paid from long-term bank loans upon delivery of goods in the foreign markets, with the specification that the amount of the receivable is reduced by the advance payment previously provided and by a security share for the proper performance of the goods produced, rate required by the foreign partner, the value of which is to cover the costs of remedying possible faults within the warranty period;

✦ the collection of the value of goods supplied to foreign customers is usually done in several instalments, established under the external agreement, at some terms, after previously collecting, upon the shipment of goods, the foreign value of the goods in part and the foreign costs in full, in compliance with the contract provisions, so that, with the advance payment, the amount should reach 20-25% of the FOB value of the goods delivered;

✦ the foreign customer retains from the exporter's receivable a share for covering any expenses related to technical assistance and service and a share risk, penalties and other unexpected expenses, for which provisions are set-up for risks and expenses at the manufacturer, amounts to be deducted from the value of the goods supplied by the manufacturer, and to be returned if the external agreement performance goes well;

✦ the way of carrying out the settlement with foreign customers determines the amount of the long-term commercial loan that the exporter must grant to the importer, and that represents approximately 75-80% of the foreign FOB value of the goods exported;

✦ the interest on the long-term trade credit granted is determined by taking into account the compound interest formula when the crediting period corresponds to a whole number of years, and if the credit term is represented by an integer number of years and a fraction of a year, then for the first part the compound interest formula is applied and for the second, the simple interest formula, with the specification that in the latter case the calculation basis is the amount of trade credit plus the compound interest related to the integer number of periods. [7]

From an accounting perspective, the economic operations on the export of goods with long-term commercial loans include accounts specific both to exports on its own behalf with collection at sight, [3] and to that with loans under one year, plus the *own accounts* of this distinct export method targeting the finance of export from long-term bank loans and the method of settlement with counterparties, including: [8]

✦ **account 419** “Advance payments from customers” is used both to reflect advance payments received from the importer, and those withheld upon settlement of the goods delivered;

✦ **account 4091** “Advance payments to suppliers for the purchase of inventories” reflects the amount of advance payments made by FTC to domestic producers and the value of those withheld upon payment of the goods purchased;

✦ **account 472** “Deferred income” which reflects the interest invoiced to foreign customers, included in the foreign price of the goods, which turns into financial revenue on the collection of instalments from the commercial credit granted to the importer and thus of the related interests;

✦ **account 2678** “Other long term receivables” is used to record the share related to the security retained by the foreign customer for the proper execution and operation of goods within the warranty period, and the amount returned by the foreign partner on the deadline for which that warranty was granted;

✦ **account 167** “Other loans and similar debts” keeps records of the same security retained, this time, by the exporter from the producer, but also its return if the events for which it was established did not occur or the end of warranty, if the goods were damaged and had to be remedied;

✦ **account 1621** “Long-term bank loans” reflects the bank loans received by FTC to finance exports and to refund them (if the loans are not repaid at the maturity specified in the credit agreement, then the **account 1622** “Long-term bank loans in arrears” is used);

✦ **account 1682** “Accrued interest on long term bank loans” which reflects the entity's debt to the banking unit from interest related to long-term bank loans and their payment;

✦ **account 1512** “Provisions for guarantees to customers” reflects the provisions set-up or increased related to the security share retained by the foreign recipient and their cancellation or decrease, depending on the events that take place during the warranty period, amount paid both by the exporter and manufacturer.

Accordingly, the accounting methodology specific to exports of goods on its own behalf with long-term commercial lending is complex, requiring a large number of specific accounts, continuously analyzing the phenomena that occur over a long period of time, in accordance with the clauses contained in the agreements concluded with various partners, such as: domestic producer, foreign customer, banking unit.

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

Taking into account the peculiarities of implementing this type of exports by FTC, we believe that one of the entities under review exported on 1 November 2011 industrial equipment, for which it contracted a two-year bank loan, knowing the following:

- for the commencement of manufacturing, on 01 July 2011 FTC received an advance payment of EUR 10,000.00 from the partner in Turkey, amount representing 10% of the net FOB foreign value of goods and that is transferred the same day to the manufacturing plant after previously making the conversion in RON;
- in October (03 October 2011) the manufacturing plant ships and invoices the goods to FTC, at the delivery price of RON 290,000.00 with VAT of 24%;
- the debt to the domestic provider was paid on 31 October 2011 from a bank loan contracted for a period of two years, at the sum of RON 221,520.00, representing the value of goods excluding VAT (RON 290,000), minus the advance payment before the commencement of manufacturing (10,000.00 euros) and the security share retained from the domestic provider in percentage of 6% of net FOB value of goods exported (6,000 euros);
- the interest on the contracted loan is 12% and its repayment and interest payment is made in two equal instalments, with the debt collection from the foreign partner;
- on 01 November 2011 FTC delivers the goods to the foreign partner in the CFR delivery term, amounting to 115,000.00 euros, of which: transport on international routes invoiced by a service provider entity 5,775 euro and the foreign interest 4,500 euro (representing 5% of the external value of the trade credit granted in the amount of 90,000 EUR);
- the invoice of the service provider unit is issued on 01 November 2011, when such obligation is paid from the proceeds from the foreign customer.

Please note that, unlike short-term loans, the export on long-term trade credit falls into the category of complex operations, which extends over a period longer period of time, in the case analyzed for 2 years, with *multiple features* involved, on the one hand, by the bank lending of FTC and the commercial one of the importer and, on the other hand, by the measures to be adopted to ensure the guarantee of delivery of the goods manufactured, for this purpose cash advance payments were received from the customer, without excluding the insurance of the same regarding the functioning of the goods purchased, which is why the beneficiary withholds a share of the value of the debt, amount that will make it possible to cover any costs involved in remedying possible damage that may occur during the warranty period. In this case, the entries related to the export of goods on its own behalf on long-term are carried out over three financial years, namely: [8]

A) Economic operations performed in 2011

- ✚ receipt of the advance payment amounting to EUR10,000.00, from the importer, on 1 July 2011 (EUR 10,000.00 x 4.2419 RON/EUR = 42,419 RON):

| | | | |
|--|---|--|-----------|
| 5124 “Cash at bank in foreign currencies” | = | 419 “Advance payments from customers” | 42,419.00 |
|--|---|--|-----------|

- ✚ the sale of currency at the exchange rate of the same day, in order to subsequently transfer the amount collected from the foreign customer to the domestic producer:

| | | | |
|---------------------------------|---|---------------------------------------|-----------|
| 581 “Internal transfers” | = | 5124 “Cash at bank in foreign” | 42,419.00 |
|---------------------------------|---|---------------------------------------|-----------|

- and, at the same time:

| | | | |
|-----------------------------------|---|---------------------------------|-----------|
| 5121 “Cash at bank in lei” | = | 581 “Internal transfers” | 42,419.00 |
|-----------------------------------|---|---------------------------------|-----------|

- ✚ advance payment to the manufacturer before commencing the execution of the equipment:

| | | | |
|--|---|-----------------------------------|-----------|
| 409 “Advance payments to suppliers” | = | 5121 “Cash at bank in lei” | 42,419.00 |
|--|---|-----------------------------------|-----------|

- ✚ at the end of July, the foreign currency debts for the advance payment received from the foreign customer are assessed in relation to the exchange rate set by the central bank for the last banking day of the month (29 July 2011), at which time the positive exchange rate differences are calculated and recorded, as follows:

- amount in RON on 01 July 2011: EUR 10,000 x 4.2419 RON/EUR = RON 42,419;
- amount in RON on 29 July 2011: EUR 10,000 x 4.2403 RON/EUR = RON 42,403;
- exchange rate difference (positive): RON 42,403 – RON 42,419 = RON 16.

| | | | |
|--|---|-------------------------------------|-------|
| 419 “Advance payments from customers” | = | 765 “Foreign exchange gains” | 16.00 |
|--|---|-------------------------------------|-------|

- ✚ the foreign debts are assessed every month, taking into account the evolution of the exchange rate between the end of the previous month and the end of the current month; on 31 August 2011 the positive exchange differences amounting to 175 RON, generate the same accounting formula, that is:

- amount in RON on 29 July 2011: EUR 10,000 x 4.2403 RON/EUR = RON 42,403;
- amount in RON on 31 August 2011: EUR 10,000 x 4.2228 RON/EUR = RON 42,228;
- exchange rate difference (positive): RON 42,228 – RON 42,40 = RON 175.

| | | | |
|--|---|-------------------------------------|--------|
| 419 “Advance payments from customers” | = | 765 “Foreign exchange gains” | 175.00 |
|--|---|-------------------------------------|--------|

- ✚ on 30 September 2011, following the assessment of foreign debts, the negative foreign exchange differences are calculated and recorded, as follows:

- amount in RON on 31 August 2011: EUR 10,000 x 4.2228 RON/EUR = RON 42,228;
- amount in RON on 30 September 2011: EUR 10,000 x 4.3533 RON/EUR = RON 43,533;
- exchange rate difference (negative): RON 43,533 – RON 42,228 = RON 1,305.

| | | | |
|-------------------------------|---|---------------------------------------|----------|
| 665 “Foreign exchange losses” | = | 419 “Advance payments from customers” | 1,305.00 |
|-------------------------------|---|---------------------------------------|----------|

Although the advance payment received from the foreign customer in foreign currency was evaluated at the end of each month, so that the final debt reflected in the final balance in hand of the account 419 “Advance payments from customers” increased with the amount of 1,114 RON, due to the negative exchange rate evolution of the national currency from 1 July 2011 to 30 September 2011, we find that this influence does not affect the value in RON of the advance paid by the exporter to the producing entity, so that when defining the size of the credit granted by the banking unit, only the value in RON of the advance transferred to the manufacturer before starting execution of that good is considered, at the exchange rate at that time (01 July 2011). Thus, after the monthly assessment of foreign debts, the final balance due of the account 409 “Advance payments to suppliers” no longer corresponds to the final balance in hand of the account 419 “Advance payments from customers”, although upon receipt and payment of these amounts, the balances were equal.

- + purchase of goods from the manufacturer, on 03 October 2011, at the delivery price of RON 290,000.00 with VAT of 24% (RON 290,000.00 x 24% = RON 69,600.00):

| | | | |
|----------------------------------|---|-----------------|------------|
| % | = | 401 “Suppliers” | 359,600.00 |
| 371 “Goods purchased for resale” | | | 290,000.00 |
| 4426 “Input value-added tax” | | | 69,600.00 |

- + the receipt of the loan amounting to RON 221,520 from the banking unit, on 31 October 2011, for the internal provider payment, excluding the value added tax, the advance previously paid in the amount of 42,419 RON and the security share retained from the provider, assessed at the exchange rate on the day of equipment invoice to the foreign provider, respectively 1 November 2011 (EUR 6,000 x 4.3435 RON/EUR = RON 26,061):

| | | | |
|----------------------------|---|-----------------------------|------------|
| 5121 “Cash at bank in lei” | = | 1621 “Long term bank loans” | 221,520.00 |
|----------------------------|---|-----------------------------|------------|

- + payment of debt to the domestic manufacturer, on 31 October 2011, less the security retained, after first settling the advance payment previously made:

| | | | |
|-----------------|---|-------------------------------------|------------|
| 401 “Suppliers” | = | % | 359,600.00 |
| | | 409 “Advance payments to supplier” | 42,419.00 |
| | | 167 „Other loans and similar debts” | 26,061.00 |
| | | 5121 “Cash at bank in lei” | 291,120.00 |

The analysis of the current situation shows that FTC has a long-term bank loan in order to finance exports on its own behalf only for the amount required to pay the debt to the domestic producer, without taking into account the advance paid by the foreign customer at the commencement of manufacturing, the security retained for the proper execution and operation of the equipment or the VAT charged by the domestic supplier, such as the input tax, which, for the exporter, shall be recovered at the end of the fiscal period from the state budget. Therefore, the difference between the amount of the credit granted by the banking unit (RON 221,520) and the amount required to pay the domestic producer for the equipment supplied (291,120 RON) can be found in the input value-added tax (RON 69,600).

- + on 31 October 2011 there are assessed the foreign currency debts related to the foreign advance payment received in July, existing in balance at the end of the month, which results in a positive exchange difference, calculated as follows:

- amount in RON on 30 September 2011: EUR 10,000 x 4.3533 RON/EUR = RON 43,533;
- amount in RON on 31 October 2011: EUR 10,000 x 4.3243 RON/EUR = RON 43,243;
- exchange rate difference (positive): RON 43,243 – RON 43,533 = RON 290.

| | | | |
|---------------------------------------|---|------------------------------|--------|
| 419 “Advance payments from customers” | = | 765 “Foreign exchange gains” | 290.00 |
|---------------------------------------|---|------------------------------|--------|

- + the invoicing of the technological equipment supplied to the foreign partner on 2-year trade credit, on 01 November 2011, using the export calculation sheet for this purpose (external invoice for internal use, Table no. 1):

Table no. 1 External invoice for internal use

| No. | Specification | Currency value (Euro) | Value in RON (1 Euro = RON 4.3435) |
|-----|-----------------------------------|-----------------------|------------------------------------|
| 1. | CFR external value | 115,000 | 499,502.50 |
| 2. | External transport | 5,775 | 25,083.71 |
| 3. | External interest | 9,225 | 40,068.79 |
| 4. | Net FOB foreign value [1-(2 + 3)] | 100,000 | 434,350.00 |

The external interest (D) is determined using the compound interest formula, as follows:

$$D = VE(1 + K)^n - VE \quad (1)$$

where:

- VE – net FOB external value for which the trade credit is granted;
- K – interest coefficient (5% = 0.05).

If we consider that the external value of net FOB for which the trade credit is granted is EUR 90,000, because the amount of EUR 10,000 is the advance payment received before commencement of manufacturing of the industrial equipment, then the interest contained in the external invoice is determined as follows:

$$D = \text{EUR } 90,000.00 (1 + 0.05)^2 - \text{EUR } 90,000.00 = (\text{EUR } 90,000.00 \times 1.05^2) - \text{EUR } 90,000.00 = \text{EUR } 99,225.00 - \text{EUR } 90,000.00 = \text{EUR } 9,225.$$

| | | | |
|------------------|---|--|------------|
| 4111 “Customers” | = | % | 499,502.50 |
| | | 707 “Sale of goods purchased for resale” | 434,350.00 |
| | | 708 “Revenues from sundry activities” | 25,083.71 |
| | | 472 “Deferred income” | 40,068.79 |

✚ simultaneously, there is the discharge from administration of the goods sold:

| | | | |
|------------------------|---|----------------------------------|------------|
| 607 “Goods for resale” | = | 371 “Goods purchased for resale” | 290,000.00 |
|------------------------|---|----------------------------------|------------|

✚ there is also reflected the negative foreign exchange difference relating to the advance payment received from the foreign customer that will be settled on 1 November 2011, liability assesses by 31 October 2011:

- amount in RON on 31 October 2011: EUR 10,000 x 4.3243 RON/EUR = RON 43,243;
- amount in RON on 01 November 2011: EUR 10,000 x 4.3435 RON/EUR = RON 43,435;
- exchange rate difference (negative): RON 43,435 – RON 43,243 = RON 192.

| | | | |
|-------------------------------|---|---------------------------------------|--------|
| 665 “Foreign exchange losses” | = | 419 “Advance payments from customers” | 192.00 |
|-------------------------------|---|---------------------------------------|--------|

✚ there is reflected the settlement with the foreign customer of the advance payment previously received, evaluated by the end of October 2011, evaluation which resulted in an increase in the RON debt by the amount of RON 1,016, in the same time with the recipient’s retention of the security share for remedying any possible damage that may occur during the warranty period provided by the manufacturer (EUR 6,000 x 4.3435 RON/EUR = RON 26,061):

| | | | |
|---------------------------------------|---|------------------|-----------|
| % | = | 4111 “Customers” | 69,496.00 |
| 419 “Advance payments from customers” | | | 43,435.00 |
| 2678 “Other long term receivables” | | | 26,061.00 |

✚ simultaneously, a provision is set-up for guarantees to customers:

| | | | |
|---|---|---|-----------|
| 6812 “Provisions for risks and charges” | = | 1512 “Provisions for guarantees to customers” | 26,061.00 |
|---|---|---|-----------|

✚ on 01 November 2011, prior to the export of goods, the invoice issued by the unit providing transport services on international routes is recorded (EUR 5,775 x 4.3435 RON/EUR = RON 25,083.71):

| | | | |
|--|---|-----------------|-----------|
| 624 “Transport of goods and personnel” | = | 401 “Suppliers” | 25,083.71 |
|--|---|-----------------|-----------|

✚ the collection from external client of the value of transport services, without foreign exchange differences, as the delivery invoice date coincides with the date of receipt of the claim:

| | | | |
|---|---|------------------|-----------|
| 5124 “Cash at bank in foreign currencies” | = | 4111 “Customers” | 25,083.71 |
|---|---|------------------|-----------|

✚ liability payment to the service provider unit, of the amount received from the importer:

| | | | |
|-----------------|---|---|-----------|
| 401 “Suppliers” | = | 5124 “Cash at bank in foreign currencies” | 25,083.71 |
|-----------------|---|---|-----------|

If we analyze the accounting operations previously performed both in RON and foreign currency, it follows that **on 1 November 2011, FTC records foreign debts** from the delivery of goods amounting to EUR 93,225, i.e. RON 404,922.79 (final balance due of the account 4111 “Customers”), but also receivables concerning the securities withheld by the domestic client, amounting to EUR 6,000, i.e. RON 26,061 (final balance due of the account 2678 “Other long term receivables”).

Considering this situation, **at the end of November**, the currency receivables are evaluated, time to calculate and record the foreign exchange differences for:

✦ the balance of receivables from exports of goods:

- amount in RON on 01 November 2011: EUR 93,225 x 4.3435 RON/EUR = RON 404,922.79;
- amount in RON on 30 November 2011: EUR 93,225 x 4.3539 RON/EUR = RON 405,892.33;
- exchange rate difference (positive): RON 405,892.33 – RON 404,922.79 = RON – 969.54.

| | | | |
|-------------------------|---|-------------------------------------|--------|
| 4111 “Customers” | = | 765 “Foreign exchange gains” | 969.54 |
|-------------------------|---|-------------------------------------|--------|

✦ securities withheld by the foreign partner:

- amount in RON on 01 November 2011: EUR 6,000 x 4.3435 RON/EUR = RON 26,061;
- amount in RON on 30 November 2011: EUR 6,000 x 4.3539 RON/EUR = RON 26,123.40;
- exchange rate difference (positive): RON 26,123.40 – RON 26,061 = RON – 62.40.

| | | | |
|---|---|-------------------------------------|-------|
| 2678 “Other long term receivables” | = | 765 “Foreign exchange gains” | 62.40 |
|---|---|-------------------------------------|-------|

✦ at the same time, the provision previously established for the securities granted is increased:

| | | | |
|--|---|--|-------|
| 6812 “Provisions for risks and charges” | = | 1512 “Provisions for guarantees to customers” | 62.40 |
|--|---|--|-------|

✦ at the end of the financial year, currency receivables are evaluated based on the exchange rate established by the central bank, valid on the last day of the financial year (1 EUR = RON 4.3197) rate that generates negative foreign exchange differences for both receivables, i.e.

- for the receivables reflected in the account 4111: EUR 93,225 x (4.3197 RON/EUR – 4.3539 RON/EUR) = RON – 3,188.30;
- for the receivables reflected in the account 2678: EUR 6,000 x (4.3197 RON/EUR – 4.3539 RON/EUR) = RON – 205.20.

| | | | |
|--------------------------------------|---|---|----------|
| 665 “Foreign exchange losses” | = | % | 3,393.50 |
| | | 4111 “Customers” | 3,188.30 |
| | | 2678 “Other long term receivables” | 205.20 |

✦ at the same time, the previously established provision corresponding to the assessed value of the securities provided to the foreign partner is reduced:

| | | | |
|--|---|--|--------|
| 1512 “Provisions for guarantees to customers” | = | 7812 “Write back of provisions for risks and charges” | 205.20 |
|--|---|--|--------|

If we analyze the change in the amount of value in RON of receivables expressed in foreign currency, recorded in the accounts 4111 “Customers” and 2678 “Other long term receivables”, we can see that after a positive evolution between 01 November 2011 and 30 November 2011, which was due to the exchange rate increase from 4.3435 RON/EUR to 4.3539 RON/EUR, a situation which led to the increase in receivables by RON 969.54 for those recorded in the account 4111, i.e. RON 62.40 for the account 2678, the value of receivables decreased compared to the previous month, by RON 3,188.30 (account 4111) i.e. RON 205.20 (account 2678). Thus, the positive difference reflected at the end of November, cumulated on total receivables, amounting to RON 1,031.94 was “cancelled” and even offset by the negative difference recorded as a result of lower foreign exchange, amounting to RON 3,393.50, resulting in total, from the registration of receivables, a negative difference in the amount of RON 2,361.56.

In this context, we consider it appropriate to introduce monthly assessments of receivables and liabilities in foreign currencies, if we consider that after it, at the end of each reporting period, the receivable, payment amounts and the foreign exchange cash are updated, but we can see that the monthly assessment may influence the accounting and tax profit of an entity, leading in many cases to overstatement of profit and therefore, of tax liability, which is reinforced by the evolution of exchange rates at the close of previous financial years, compared with the values reached at the end of each month during the year. We also note that, by the monthly assessment of currency receivables corresponding to the securities provided to the foreign customer, the value of the provision set-up for them increases or decreases every month, as the foreign exchange differences are positive or negative.

Referring to the long-term bank credit contracted, although the interest is paid in two equal annual instalments, according to the loan agreement concluded with the banking unit, we believe that at the end of the financial year we should calculate and record the interest for the period in which entity benefited from the amounts received during 2011, so that the profit or loss for the period should be influenced by these values, respectively: 31 October 2011 - 31 December 2011 (RON 221,520 x 12% x 2/12 months = RON 4,430.40):

| | | | |
|-------------------------------|---|--|----------|
| 666 “Interest expense” | = | 1682 “Accrued interest on long term bank loans” | 4,430.40 |
|-------------------------------|---|--|----------|

However, according to two months of 2011, there is reflected the shift of a share from the interest included in the external invoice on the profit or loss for the period, given the exchange rate set by the central bank at the end of the

financial year, when the negative currency differences are also calculated and recorded, using the exchange rate in effect at the time of invoicing of 4.3435 RON/EUR (RON 40,068.79: 24 months x 2 months = RON 3,339.07):

| | | | |
|-----------------------|---|-----------------------|----------|
| 472 “Deferred income” | = | 766 “Interest income” | 3,339.07 |
|-----------------------|---|-----------------------|----------|

We can not help noticing that after the use of long-term bank loans for financing export on its own behalf, FTC records a financial loss from interests amounting to RON 1,091.33 in a period of 2 months.

B) Economic operations for the year 2012

Since the export of goods on its own behalf was done with financing from long-term bank loans, in 2012, according to the agreements concluded, there have been several *accounting operations* in the FTC, namely:

- + at the end of each month, from January to October 2012 positive or negative exchange rate differences are recorded, as appropriate, for foreign currency receivables existing in the final balance due of the accounts: 4111 “Customers” (EUR 93,225.00) and 2678 “Other long term receivables” (EUR 6,000.00);
- + at the same time, the provisions for securities to customers are increased or decreased, as foreign exchange differences related to the receivables in the account 2678 are positive or negative;
- + record of the bank interest for the long-term loan for the period from the beginning of the year to the end of October 2012 (RON 221,520 x 12% x 10/12 months = RON 22,152):

| | | | |
|------------------------|---|---|-----------|
| 666 “Interest expense” | = | 1682 “Accrued interest on long term bank loans” | 22,152.00 |
|------------------------|---|---|-----------|

- + simultaneously, the current income from the interest invoiced to the foreign partner is calculated and recorded, according to the same reporting period (RON 40.068,79: 24 months x 10 months = RON 16,695.33):

| | | | |
|-----------------------|---|-----------------------|-----------|
| 472 “Deferred income” | = | 766 “Interest income” | 16,695.33 |
|-----------------------|---|-----------------------|-----------|

- + the collection of the annual rate from the foreign partner, on 01 November 2012, representing half of the remaining receivable, considering the exchange rate as at the end of 2011 (EUR 93,225: 2 x 4.3197 RON/EUR = RON 201,352.02):¹

| | | | |
|---|---|------------------|------------|
| 5124 “Cash at bank in foreign currencies” | = | 4111 “Customers” | 201,352.02 |
|---|---|------------------|------------|

- + repayment of the long-term bank loan (first instalment: RON 221,520: 2 = 110.760 RON), including the interest accrued (RON 4,430.40 + RON 22,152.00 = RON 26,582.40):

| | | | |
|---|---|---|------------|
| % | = | 5121 “Cash at bank in lei” ² | 137,342.40 |
| 1621 “Long term bank loans” | | | 110,760.00 |
| 1682 “Accrued interest on long term bank loans” | | | 26,582.40 |

Please note that in December 2012, just like in 2011, the interest for the month of November and December is calculated and recorded, together with the current income from the deferred income, included in the foreign price of the goods sold. If FTC has foreign currency amounts, they are evaluated every month as currency receivables.

C) Economic operations for the year 2013

In 2013, FTC performs the same record as in 2012, until 1 November, with the specification that the rate charged from foreign customer is RON 201,352.01.

If we look at the accounts with which we made the entries of exports of goods made on long-term, on own behalf, at the end of the crediting period *the following results*:

- + the long-term bank loans, including interest thereon have been fully paid, which emerged from the final balances of accounts 1621 and 1682 which were cleared;
- + the foreign interest included in the price of goods exported has fully affected the profit or loss for each reporting period (2011, 2012, 2013), issue which arises from the clearance of account 472;
- + the securities granted to the foreign customer are reflected in the final balance due of the account 2678 (RON 25,918.20) balance obtained both from entries made in that account and from the transformation in domestic currency (EUR 6,000.00 x 4.3197 RON/EUR = RON 25,918.20);
- + under the securities granted to the foreign partner FTC constituted provisions for risks and charges reflected in the final balance in hand of the account 1512;
- + the amounts pledged as performance guarantees, available to the foreign customer, were retained by FTC from the value due to the domestic supplier, with the specification that the value in RON is that from the time of withholding, with no update in relation to the exchange rate (EUR 6,000.00 x 4.3435 RON/EUR = RON 26.061) amount reflected in the final balance in hand of the account 167;
- + the balances of accounts: 2678, 1512, 167, are cleared after the warranty period, if in this time there is no damage to the technological equipment exported, or on the way, if financial resources are needed to remedy the defects occurred, amounts that are borne by FTC and recovered from the domestic supplier.

4. Conclusions

Consequently, although exports of goods with long-term trade credit, as a whole, is a profitable operation for FTC, if we strictly focus attention on the interest costs arising from the contracted loan (RON 221,520 x 12% x 24/12 months = RON 53,164.80) and we perform a comparison with the amount of the interest included in the foreign price (RON 40,068.79), it follows that, in this segment, the entity has incurred a loss amounting to RON 13,096.01, which is why we consider that external negotiations should be carried out so that for the financing of export from long-term bank loans, the full cost of the loan should be recovered by price from the foreign partner.

Also, even if between FTC and the banking unit the agreement concluded provides for the annual payment of interest, in our opinion, as we said during the accounting monograph, the interest related to the loan should be calculated and recorded monthly in the accounts, and simultaneously there should be a shift in the category of current income from interest of a share from the interest included in the foreign price, calculated based on the number of months for which crediting is made, operations after which the reporting periods will be affected by instalment and proportionally, with financial income and expense as interests.

Thus, by applying this proposal, there is removed the drawback created by including the entire annual value of interests, as appropriate, in the costs and revenues of a single reporting period, a situation which leads to a significant increase in the financial loss, in the due month for the payment of interest, with the entire difference, for one year, between the interest expense (higher) and the corresponding revenues included in the foreign price (lower).

5. References

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¹ The amount of the receivable, under the balance of account 4111 “Customers” is EUR 93,225.00, RON 407,704.03, an amount resulting both from the final balance due of the account 4111, on 31 December 2011, by which time we determined and recorded monthly exchange rate differences when assessing the foreign currency receivables, and from calculating the currency amount in RON, taking into account the exchange rate announced by the central bank from the end of financial year 2011 (EUR 93.225 x 4.3197 RON/EUR).

² The amounts in RON were obtained by converting the foreign currency cash received from the foreign.