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## Accounts of an Importing and Exporting House

BY GLENN L. BROWN

Owing to the enormous increase in the number of concerns in the United States that are now doing more or less of an importing or exporting business, the practising accountant is coming in contact with the problems of this kind of accounting more frequently than in the past and undoubtedly will be called upon still more often in the future by his clients for advice as to the methods of handling this class of accounts. In recording the transactions of a company engaging in this business, problems are continually arising that are not met with in the accounts of a concern that limits its activities to a strictly domestic business.

It is not the purpose of this article to attempt to outline a cut-and-dried system of accounts that will meet all the requirements of any exporting or importing house, as no system is absolutely perfect. The needs of each particular business must be studied before an entirely satisfactory system can be installed. I confine myself, therefore, to a general outline of the methods used in handling a few of the problems encountered in the accounts of a particular concern whose stock in trade is obtained in the following manner:

1. Merchandise purchased by the company's travelers in foreign countries
2. Merchandise shipped direct to the company by foreign dealers
3. Merchandise purchased in the United States
4. Merchandise manufactured by the company

The company handles four distinct classes of merchandise and the accounts are so arranged that a gross trading profit can be readily ascertained on each class of domestic sales and each class of foreign sales.

Before the goods are sold they are held in stock, in storage and on consignment.

This company has at all times several travelers in foreign countries purchasing merchandise. When a traveler starts on his trip, which usually lasts a year or two, he is furnished with two letters of credit—one for the payment of his expenses and the other to be used in payment for merchandise purchases. For the

recording of these letters of credit, the company has two control accounts in its general ledger. They are brought into account by journal entry as follows:

Letters of credit—issued to travelers . . . . .	Dr.	
To Letters of credit—issued by banks . . . . .		Cr.

A detailed memorandum account is kept recording the transactions on each letter of credit so that the status of each credit can be ascertained at any time.

An expense account is kept for each trip and as drafts on letters of credit for expenses are presented, they are paid by cheque and the respective expense accounts are debited.

The drafts in payment for the purchases of merchandise are generally 90 or 120 days' sight and, upon presentation and acceptance of them, the following entry is made upon the books of the company:

Importation advances . . . . .	Dr.	
To Unpaid-drafts account . . . . .		Cr.

When these drafts are taken up, the entry made is as follows:

Unpaid-drafts account . . . . .	Dr.	
Interest and bank commission on drafts . . . . .	Dr.	
To Bank account . . . . .		Cr.

At the end of each month a journal entry is made—

Letters of credit—issued by banks . . . . .	Dr.	
To Letters of credit—issued to travelers . . . . .		Cr.

for the aggregate amount of drafts on letters of credit presented during the month.

In the case of direct shipments of merchandise from foreign dealers, the general practice is for the shipper to draw a draft at 90 or 120 days' sight for a previously agreed percentage of the value of the merchandise. The drafts are often drawn in sterling or some other foreign exchange. The manner of booking these drafts is similar to that used in the case of drafts drawn by the company's travelers, except that before an entry can be made for a draft drawn in a foreign currency the amount is converted into its dollar value at the rate of exchange for that day. This converted value is recorded in the journal entry, as well as the amount of the draft in foreign currency.

The facts that drafts are drawn in currencies other than that of the United States; that sales are made in currencies other than

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dollars, and that the company has more or less funds on deposit in foreign countries at all times, make it necessary to have some of the ledger sheets double-ruled so that both currencies can be recorded in all cases where necessary, such as foreign bank accounts, agents' accounts, foreign customers' accounts, draft accounts, advances, etc.

Upon the payment of the shipper's accepted drafts, the same kind of entry is made as for the payment of drafts drawn by the company's travelers, except in the case of drafts drawn in foreign currencies. The latter are paid at the rate of exchange of the day of payment and this rate will vary more or less from the rate at which the drafts were originally entered in the unpaid-drafts account. In order to balance the account a further entry is necessary, debiting or crediting the unpaid-drafts account with an amount equal to the difference between the original conversion value and the amount actually paid to the bank with a corresponding amount credited or debited to a foreign-exchange-difference account, as the case may be.

A purchase account is kept in the general ledger for each class of merchandise, to which are debited all purchases of the respective class of goods, transfers from manufacturing accounts and transfers from storage accounts. These entries are made in totals monthly. All purchases of merchandise are recorded in a merchandise-purchase register and the monthly closing entry for this register is as follows:

Merchandise purchases (class 1) . . . . .	Dr.	
Merchandise purchases (class 2) . . . . .	Dr.	
Merchandise purchases (class 3) . . . . .	Dr.	
Merchandise purchases (class 4) . . . . .	Dr.	
To Accounts-payable account . . . . .		Cr.

After recording the purchase in the purchase register the items from domestic sources are paid for by cheque and accounts-payable account is debited with the amount by the customary monthly closing entry of the cheque register. In the case of purchases made by company's travelers, the accounts-payable account is cleared by journal entry, as follows:

Accounts-payable account . . . . .	Dr.	
To Importation-advance account . . . . .		Cr.

Where shippers have drawn for only a portion of the value of the goods, an entry is made as above, thereby clearing the im-

portation-advance account for the amount of the draft paid, and the remaining portion is entered through the cashbook, thereby completing the clearance of accounts-payable account.

The company's manufacturing accounts do not differ from those of many other concerns and they are not of importance in the present instance, except that the transfers of finished products from the factory to stock are summarized monthly and the respective merchandise-purchase accounts are debited with the total output of the factory during the month, valued at cost.

In the company's general ledger there is a control account for merchandise in storage. This account represents the value of merchandise which the company has found it necessary to hold in public warehouses, through the lack of storage space at its plant. A subsidiary ledger is kept for this merchandise containing a record of each lot stored. A record of all transfers to storage is kept in a special binder from which the necessary postings are made to the subsidiary storage ledger during the month. This binder is summarized monthly and a monthly closing entry is posted to the general-ledger accounts as follows:

Merchandise-in-storage account . . . . .	Dr.	
To Merchandise purchases (class 1) . . . . .		Cr.
Merchandise purchases (class 2) . . . . .		Cr.
Merchandise purchases (class 3) . . . . .		Cr.
Merchandise purchases (class 4) . . . . .		Cr.

Returns of merchandise from storage to stock on hand are handled like the transfers to storage, except that the monthly closing entry is the reverse of the foregoing entry:

Merchandise purchases (class 1) . . . . .	Dr.	
Merchandise purchases (class 2) . . . . .	Dr.	
Merchandise purchases (class 3) . . . . .	Dr.	
Merchandise purchases (class 4) . . . . .	Dr.	
To Merchandise-in-storage account		Cr.

A separate binder is kept for the transfers of merchandise to merchandise-consignment account and a monthly closing entry is made similar to the one used in the closing of the to-storage binder, except that the debit is to merchandise-consignment account. Further reference will be made to the handling of these consignment stocks.

In addition to the above entries to the respective merchandise-purchase accounts, there will be the usual entry for returned purchases. A monthly entry will be posted to the credit of the

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account, transferring to the export department the cost of the merchandise sold direct from stock by that department during the month. At rare intervals consigned goods are returned and in such cases the transaction is recorded through the general journal, debiting the correct merchandise account and crediting consignment account.

Summarizing the foregoing transactions on the various merchandise accounts, the monthly entries are as follows:

Debits	Credits
Purchases	Return purchases
Transfers from manufacturing accounts	Transfers to storage
Returns from storage	Transfers to consignments
Returns from consignments	Transfers to export department

Inasmuch as all transfers are made at cost prices and inventories are priced on the same basis (or, in case the inventory of goods on hand is valued at prices lower than original cost price, a further journal entry is made debiting inventory-adjustment account and crediting the proper merchandise-purchase account with the difference in valuations) by debiting the accounts with the inventory on hand at the beginning of the period and crediting the account with the inventory on hand at the end of the period, the account shows the cost of domestic sales for the period.

The manner in which the company handles its domestic sales and returns and allowances is not of particular interest at this time, except that a sales account is kept for each class of merchandise handled so that at the end of each month or period the net sales of each class of merchandise are shown by the trial balance.

The company has at all times more or less merchandise on consignment to dealers and agents in foreign countries. Until an account sales is received, the value of the consigned merchandise is carried on the company's books in the consigned-merchandise account. The original entry to this account is the transfer of the cost of consigned merchandise from the merchandise-purchase accounts, as previously described in relation to the credits to the merchandise-purchase accounts.

The subsidiary ledger is a loose-leaf book. A page, or more if necessary, is assigned to each consignment. This page is started in the first instance in the export-sales department, when the original order is given to the shipping department. The upper half of the page is reserved for the recording of all information

regarding terms, quantities, etc. It is specially ruled, with space for all instructions given to the shipping department in reference to name and address of consignee, package marks, routine, etc.; all terms upon which the goods are to be handled by the consignee; insurance rates and amounts; and drafts to be drawn—number, rate, amount, etc. This information is all recorded on the sheets before they are turned over to the accounting department by the export-sales department. When the sheets are received in the accounting department, they are entered in a subsidiary ledger and given a consignment number.

As the goods are shipped, they are billed as consigned goods. From the office copies of this billing the accounting department records on the original ledger sheet such further information as the packages actually shipped, identifying package numbers, units or weights contained in each package, etc. The record in the subsidiary ledger now becomes the stock account for this class of merchandise as well as part of the financial records. The lower half of the sheet is ruled for debits and credits as follows: Date—Remarks—Folio—Foreign currency—Exchange rate—American currency.

The next step is to debit the respective consignment accounts with the cost of the merchandise consigned, which corresponds with the credits to the respective merchandise-purchase accounts. The totals of these individual entries are posted to the proper control accounts monthly.

Further debits will be made to the respective consignment accounts from time to time, as they are passed through the expense-voucher register, covering such items as inland freight, ocean freight, insurance, cartage, storage, etc. These items are posted daily in the subsidiary ledger and posted to the control account in total at the end of the month when the expense-voucher register is closed.

As accounts sales are received from the consignees, the export-sales department approves them and makes out sales tickets for the amount sold, and the agent is charged with the amount due, based upon the rate of exchange of the day. Entries are also prepared crediting the agent with any further expenses he may have incurred and with his commission on the sale, and charging the amounts to the proper export-department-expense accounts. If the accounting received covers a complete consignment, the consignment account is credited with cost of goods and added

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charges, and the same amount is distributed to the export department's cost-of-sales and expense accounts. If the account sales covers a part shipment, only a portion of the cost and added charges is transferred, according to the relationship which the quantity of goods accounted for bears to the quantity originally shipped. These transfers are summarized and at the end of the month the consigned-merchandise account is cleared by journal entry as follows:

Cost of export sales (class 1) .....	Dr.
Cost of export sales (class 2) .....	Dr.
Cost of export sales (class 3) .....	Dr.
Cost of export sales (class 4) .....	Dr.
Export department expense accounts (distributed)	
To Consigned merchandise account	Cr.

Summarizing the entries to consigned-merchandise account each month we have:

Debits	Credits
Cost—Transfers from merchandise-purchase accounts 1-2-3-4	Transfers to cost of export sales
Added charges	Transfers to export department expense accounts

The balance on the account represents the original cost, plus added charges to date, of the unaccounted-for consigned merchandise.

In addition to the sales of consigned goods, the export department makes direct sales both on the basis of dollar exchange and foreign exchanges. These direct sales are invoiced in regular billing and posted to the debit of accounts receivable, and the respective sales accounts are credited. If the sale is in a foreign currency, the amount of such currency as well as the dollar value based upon the rate of exchange for that day is debited in the customer's account.

The cost price for each sale is recorded and summarized at the end of the month, when the totals are journalized as follows:

Cost of export sales (class 1) .....	Dr.
Cost of export sales (class 2) .....	Dr.
Cost of export sales (class 3) .....	Dr.
Cost of export sales (class 4) .....	Dr.
To Merchandise-purchase account (class 1)	Cr.
Merchandise-purchase account (class 2)	Cr.
Merchandise-purchase account (class 3)	Cr.
Merchandise-purchase account (class 4)	Cr.

We have reviewed in a general way the manner of recording the purchase of merchandise, its treatment in the accounts while in the control of the company and finally the sale. There remains the matter of collection of the accounts receivable.

All foreign accounts receivable, arising through the sale of merchandise, are kept in a foreign-customers' ledger and as already mentioned, the ruling of the sheets in this ledger is such as to allow the recording of the amount of the sale in American and foreign currency.

When merchandise is consigned, the general practice is to draw against the consignee for a percentage of the value of the goods. In case of direct sales, drafts are usually drawn against the customer at 60 to 90 days' sight for the full value of the invoice.

The amounts of these drafts are debited to drafts-receivable account and the corresponding amounts are credited to advances-on-consignments account, if drawn, against the agent to cover part value of consigned goods, and to the credit of accounts receivable when drawn against a customer. When the drafts are drawn in a foreign currency the same general rule of valuing in dollars at the rate of exchange of the day applies.

As the drafts are deposited in the bank account or sold, they are credited to drafts-receivable discounted. When notification of the payment of the drafts is received, a journal entry is made debiting drafts-receivable-discounted account and crediting drafts-receivable account. These entries clear the accounts as far as sales to customers are concerned.

In the case of accounting by agents, after crediting the proper sales accounts, as reported in the account sales, and debiting the agent's account, there is open on the books an account receivable due from the agent for the amount of the sale, less his expenses and commissions, and a credit balance in advances-on-consignment account for the amount of the draft drawn against the shipment. To clear the advance account, an entry is made debiting the advance account and crediting the amount to the agent's account. If the agent has remitted the balance due, this amount is credited to his account and the account will be in balance, as far as the foreign currency is concerned, and a further entry transferring the balance in dollars to foreign-exchange differences will adjust the account. In many instances the agent does not remit direct for any balances that may be due the company, but deposits the amount due in some designated bank for the account of the com-

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pany. In that case, a journal entry is made debiting the foreign bank and crediting the agent's account.

These bank accounts are kept in foreign and domestic values. Entries are based upon the actual foreign currency converted into dollars at the current rate of exchange at date of entry. In the case in mind, the credits to these bank accounts are generally by cable transfer, although in rare instances cheques are used. At the end of any accounting period, these accounts are valued in dollars at the rate of exchange then prevailing and the difference is adjusted through foreign-exchange-difference account.