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Foreign exchange accounting; Acceptance of draft and delivery of documents

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counts Receivable," under which are shown "Customers" and "Officers," and it is desired to comment on the group of items. Three ways are suggested, namely:

1. Make "Current Assets" a center caption, without subsidiary captions. This may suffice if few comments on the constituent items are to be made.

2. In addition to the center caption, make "Accounts Receivable" a side caption. This will usually suffice, unless extensive comments on the subsidiary items are to be made.

3. In addition to the center caption, make side captions for "Accounts Receivable—Customers" and "Accounts Receivable—Officers."

It is usually desirable, when commenting on balance sheet items, to include the amounts of the items in the captions.

The following illustrates the two arrangements of subsidiary captions suggested in the foregoing:

CURRENT ASSETS

ACCOUNTS RECEIVABLE—\$100,000.00.

CURRENT ASSETS

ACCOUNTS RECEIVABLE — Customers—
\$80,000.00.

ACCOUNTS RECEIVABLE—Officers—\$20,000.00.

If a report is to be rendered in which there are no statements, but voluminous narrative matter, the whole report should be made in the form of a letter, signed at the end.

In the somewhat exceptional cases where it is desired to render statements only, without signature, a face-page or front cover should be made, showing the name of the Company, description of the statements rendered, and the date.

Foreign Exchange Accounting

Acceptance of Draft and Delivery of Documents

IN the December issue of the BULLETIN the discussion of a dollar import letter of credit had reached the point where the draft covering the silk shipped from Japan had been received by the New York bank on which it was drawn. The accompanying documents had been examined and found in order. The bank was therefore about to accept the draft.

Acceptance is made in the usual way. The documents are retained by the Foreign Department and a record is made in an acceptance register, showing date of acceptance, the number of the letter of credit under which the draft was drawn, the name of the customer for whose account the letter of credit was opened, the amount and maturity of the accepted draft. From the acceptance register, either through the medium of tickets or a journal, an entry is made charging "Unused

Commercial Letters of Credit" and crediting "Acceptances" in the general ledger. The purpose of this entry is to reflect the change from contingent liabilities under the letter of credit to actual liabilities under the acceptance. The actual liabilities are the obligation of the bank to the holder of the acceptance and the promise of the importer to provide the banker with funds with which to pay the acceptance at least one day before it matures. The acceptance is, of course, recorded in the letter of credit record and the amount of the acceptance is deducted from the balance of the letter of credit under which it was drawn, leaving an amount still available for drafts which may be drawn later. In the letter of credit record there is also recorded a complete enumeration of the shipping documents received and a description by quantities, marks and numbers of the mer-

chandise received. The acceptance is recorded in the liability records and in a tickler under its maturity date.

The negotiable documents now in the hands of the bank are security for the payment of the acceptance by the importer ninety days or four months hence. However, the merchandise was shipped from Japan about the time the draft was mailed and should reach an Atlantic port by steamer or silk train within from a few days to a month after the draft. Customs entry must be promptly made by the importer or heavy fines will be levied against the merchandise by the government. In order to make the customs entry, the importer needs to use the consular invoice and a copy of the bill of lading. If the banker turns these documents over to the importer he surrenders his security. Some scheme must therefore be devised whereby the bank's security is protected and the importer enabled to enter the goods. The bank might make the entry for his customer, the importer; banks however prefer not to be burdened with this responsibility. The importer usually is able to have the entry made more quickly and reasonably through his own customs broker.

If the importer is such a good credit risk that the bank would loan to him on his unsecured note, it would deliver the documents to him relying on his unsecured promise to pay the acceptance. More often, the documents are delivered to the importer on trust receipt, under the terms of which the importer is allowed to have possession of the goods, make the entry at the Customs House, manufacture, and sell them. At all times, however, title remains in the bank, the importer holding the goods in trust for the bank. It is when the importer becomes insolvent that the bank seeks to enforce its rights under the trust receipt by taking the goods back into its possession, regardless of other creditors. Under such circumstances the bank is able to seize the goods only if it can identify them by means of the

description in the trust receipt. This description should therefore be complete and accurate. It should show the quantities, quality, and all marks and numbers on the boxes, bales, etc. It should state the name of the shipper abroad and the name of the vessel in which shipment was made. The bank should make sure that cost records are so kept by the importer that the raw material can be traced to goods in process and later into finished goods. Under the terms of the trust receipt these are the property of the bank until the acceptance is paid. Later, when the finished goods are sold, the accounts receivable should be marked as belonging to the bank; and as these accounts are paid the proceeds should be turned over to the bank to be applied against the acceptance. It is true that it is not the custom with banks to follow the goods so closely, but this procedure is necessary if the security is to be kept intact.

If funds to meet the acceptance are not placed in the hands of the bank within about ten days prior to the maturity of the acceptance, a bill is sent to the importer requesting payment at least one day before the acceptance matures.

When the cash is received an entry is passed through the books charging "Cash" and crediting "Customers Liability on Acceptances" and the acceptance is marked off the liability record. When the acceptance is paid by the bank the account "Acceptances" is charged and "Cash" is credited. These entries reflect the cancelling of the actual liability of the importer to the bank and of the bank to the holder of the acceptance. The acceptance is then marked paid in the letter of credit record.

Several drafts are usually drawn against the same letter of credit, gradually reducing the balance. It may be noted that the importer has to open the credit for an amount larger than is necessary to cover the exact cost of shipment because there are often variations in the price, quantity shipped, cost of freight and insurance. Therefore, after all drafts have been ap-

plied against the letter of credit, the importer should notify the bank and request that the letter of credit be closed. This may be done by a bookkeeping entry charging "Letter of Credit" and crediting "Customers Liability under Letters of Credit."

There are several reasons why these balances should always be cancelled. First, because they are a part of the line of accommodation granted to the importer; second, because there is the chance that an old sheet from the letter of credit record representing a small balance will be filed away, making it impossible to prove the letter of credit record at a later date.

The correctness of the letter of credit record and of the liability records should be tested at least once each month. The letter of credit record book may be tested by taking off a list of the unused balances and of the unmatured acceptances, the totals of which should equal the balances in the controlling accounts "Letter of Credit" and "Acceptances." Lists taken in the same way from the liability record should agree with the balances of the same controlling accounts.

Pittsburgh Dinner Meeting

At a recent dinner meeting of the Pittsburgh staff the topics embraced in the outline which appears below were discussed. We reproduce the outline in the BULLETIN with the idea that it will be of general interest and perhaps offer suggestions which will be found useful by other offices.

OBJECTS OF DINNER AND MEETING

Instruction of accountants,
Exchange of ideas,
Opportunity for asking questions,
Sociability and good fellowship.

INSTRUCTION OF ACCOUNTANTS

Department in Client's Office:

Conversing with office employes, or with other accountants,

Smoking or chewing tobacco,
Hours of work,
Discretion, tact, and secrecy,
Assurance and modesty,
Application and industry,
Avoid deceit and conceit,
Always be keyed up and fit,
Learn to smile,
Personal appearance (clothes, shoes, linen, shaved, etc.).

Department Outside of Client's Office:

Keeping continuously late hours,
Do nothing that might have bad effect on daily work,
Watch general health,
Immorality, drinking, and gambling.

Relation of Accountants with Firm and Office Manager:

Absolute accuracy in work, and legible writing and figures,
Truthfulness in all statements,
Willingness to work hard and, if necessary, evenings,
Enthusiasm,
Flexibility,
General dependability,
C. P. A. Degree,
Loyalty to firm and clients,
Pride in the firm and in its standing and reputation for reliable and efficient work.

Relation of Accountants with Each Other:

Should not discuss compensation,
Should avoid jealousy and enviousness,
Should always be courteous, pleasant, and helpful,
Seniors should advise office manager of shortcomings of juniors, so that special instruction or advice can be given.

General:

Stationery supplies,
Packing work bags,
Use of books in library,
Neatness and order in office.