

8-1920

## Accounting for an Export House

Maxwell Shmerler

Follow this and additional works at: <https://egrove.olemiss.edu/jofa>



Part of the [Accounting Commons](#)

---

### Recommended Citation

Shmerler, Maxwell (1920) "Accounting for an Export House," *Journal of Accountancy*. Vol. 30: Iss. 2, Article 4.

Available at: <https://egrove.olemiss.edu/jofa/vol30/iss2/4>

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Journal of Accountancy by an authorized editor of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

## Accounting for an Export House\*

BY MAXWELL SHMERLER

The methods employed in carrying on an export business differ radically from those of ordinary mercantile or manufacturing business. As a result the accounting system and procedure present many peculiar features worthy of special consideration.

All export business may be generally classified in the following groups:

1. Concerns carrying on a general export business, extending credit to their foreign customers.
2. Concerns limiting their operations by withholding credits and selling for cash against shipping documents only.
3. Export operations carried on as a department of a mercantile or manufacturing concern, in which case the business may be operated under either the first or second plan.

The present discussion will concern itself solely with consideration of the first of the above groups, because of its broader scope.

A brief outline of the business procedure with special emphasis on the points of peculiarity is presented for the better understanding of the subject.

The commodities handled by the general export house represent products of every conceivable nature. This necessitates the keeping of accurate records of sources of supply, properly catalogued by name of product and source.

The method of handling the order does not differ much from that employed in other businesses, except that the routine involved in dealing with export orders carries with it certain technicalities peculiar to itself.

As a result of solicitation or circularization, the foreign customer sends in his requirements for commodities and invites quotations. At this point the records of sources mentioned above become the most important factor in the promotion of business.

---

\*A thesis presented at the November, 1919, examinations of the American Institute of Accountants.

## *Accounting for an Export House*

These records should readily show where such goods can be obtained at the cheapest possible price, in order to meet competition, which in the nature of the business is very keen.

As soon as the order is accepted, purchase orders are issued for the goods with shipping instructions to deliver at a designated point near the specified steamship.

The shipping department calls for the most technical knowledge and information. However, for present purposes it suffices to point out merely that, as a general rule where the shipping and traffic departments are combined, that department should be equipped with records and files whereby all orders and purchases for such orders can be classified as to time of delivery, destination, etc. In many instances it may also be necessary to arrange the orders under the name of the steamer by which they are to be shipped. This is necessary to center attention on orders to be shipped on one steamer so as to avoid leaving parts of orders behind.

When the goods are shipped and charged, a draft is drawn for the amount of the invoice and forwarded through the bank for the customer's acceptance or payment.

Generally time drafts run from 60 to 120 days or over. A common practice is to draw 30 or 60-day sight drafts. This means that the drafts are due 30 or 60 days after they are accepted. These drafts are presented for acceptance when the goods reach their destination. Thus, allowing from 30 to 60 days for delivery, the actual credit may extend for a period even longer than 120 days.

In the case of a business of considerable volume, it becomes necessary, therefore, to resort to special bank credits. The common practice in such circumstances is to borrow from banks, placing with them as collateral drafts receivable for collection. Collections made by banks are credited to a special account, from which the loans are deducted when due.

From the foregoing, it may be seen that the matters of greatest concern from the accounting point of view are the purchases and drafts receivable.

### PURCHASES

Without minimizing the importance of stock records for any business, it may be stated safely that in no case is a properly

controlled stock system more urgently needed than in an export business. The chances for clerical errors involving losses are greater in an export business operating without a stock system than in a trading or manufacturing concern in similar circumstances. While, for example, in the latter case, charges to customers are made and checked with the actual physical merchandise, in the former case all charges must be made from creditors' invoices. Thus, should invoices be lost or mislaid, the shipment is liable to go forward with items uncharged.

While stock systems are always highly desirable, it must be recognized that there are conditions in certain cases which make a properly controlled stock system impossible. This, however, is not true of export trading. Here a stock system falls directly in line with a good accounting system, because it is based upon the following simple propositions:

1. All purchases are for specific orders. Goods of similar kinds are not merged and do not lose their identity.
2. All shipments to customers are made from such identified purchases.
3. The balance of purchases which have not been shipped and charged to the customers represents the stock inventory on hand at any given time.

The above facts are brought into the books in the following manner:

All purchase invoices are entered in a voucher register.

The total of the merchandise column in the voucher register is posted to the debit of the inventory account and the total of cost-of-goods-sold column of the sales journal is posted to the debit of cost of goods sold and to the credit of the inventory account. The balance of the inventory account represents the purchases unshipped. A detailed list of all items in support of such inventory is then made by listing in the voucher register all merchandise items that have no posting under the column "charged." Thus from the voucher register we obtain two lists—the unpaid vouchers and the uncharged purchases, both of them operating upon the same principle.

The form on page 109, while intended merely to illustrate the principles involved, will also be found to be practical in most instances. For example, in addition to the above it may also



## *The Journal of Accountancy*

be desirable to keep a separate account with each shipment, showing in detail all costs and charges. This can easily be accomplished with the assistance of the system outlined above.

It is essential that the sales journal be so arranged as properly to classify the amount of the sale. The most important classifications necessary from the accounting point of view are the following:

Merchandise.

Shipping expenses—such as packing, consular fees, etc.

Commission charges.

Interest charges.

All vouchers for purchases for orders are entered in the merchandise column. When goods are shipped and charged, the date charged and sales book folio are entered on the line upon which appears the purchase, at the same time posting the amount of the purchase against the charge for it in the sales book. For that purpose, the sales book should be arranged as in form 2 (page 111).

The first of these only represents the income from sales. Shipping expenses are advanced for the customer and charged on the bill in the same form as paid. The interest and commission, however, represent separate income and should so appear on the books.

When for various reasons the classifications cannot be carried through the sales journal (in case, for example, the sales journal consists of copies of the invoices filed in a binder), a sales register properly arranged to give effect to the above plan should be used.

### DRAFTS RECEIVABLE

A matter of equal, if not greater, importance is the proper method of accounting for the drafts receivable. In a general way, the handling of such drafts has been explained already. The drafts in their relation to the loans made against them may be further explained as follows:

Loans on drafts are made in one of three ways:

1. Drafts sold to banks under the usual form of discount.
2. Loans made against individual drafts up to a fixed percentage of the face value.
3. Loans made on an aggregate of drafts deposited with



*The Journal of Accountancy*

the bank for collection, in which case the bank is not compelled to apply the collection of a certain draft against the specific loan made thereon.

In the case of drafts discounted, the accounting procedure is simple. The ledger accounts should clearly indicate and differentiate between the drafts in possession and those for which there is a contingent liability. The three accounts necessary to give effect to this method of procedure are drafts receivable, drafts receivable under discount and drafts receivable discounted.

The account drafts receivable should contain all the drafts unsold. The account drafts receivable under discount should represent all drafts discounted at banks, against which the offsetting account is drafts discounted, showing the extent of the contingent liability.

With regard to the first and second group, it may be said generally that the manner in which those drafts are treated corresponds closely to what is generally known in other business as discounting customers' accounts.

In many cases it is found that a combination of the second and third method of financing the draft is employed. The use of either one will depend entirely upon financial arrangements with the banks. It is not customary for one bank to handle such drafts under both methods.

Form 3 (page 113) illustrates the information generally necessary in regard to such drafts, as well as the proper means of giving effect to all the facts on the ledger.

This form is to be used both as a book of original entry and as a ledger.

It is desirable that the book be in loose-leaf form and that all drafts placed for collection with a certain bank be entered under the account of such bank. This is necessary for the purpose of gathering all information relative to drafts held and loans made by each bank.

The general information required from the drafts receivable register will seldom be more than that provided on form 3. It will be noted that, contrary to usual forms covering similar transactions, the tickler is eliminated. The reason is that in the majority of instances the exact due date is not known. As



*Accounting for an Export House*

Form 3

DRAFTS RECEIVABLE      Month of \_\_\_\_\_ 19\_\_

---

PLACED FOR COLLECTION WITH \_\_\_\_\_ BANK

Draft number	Date	Name	Time	Folio	Amount of draft			Date	Folio	Paid			Loans against drafts			Repaid			
					Dollars	Foreign				Dollars	Foreign		Borrowed	Folio	Amount	Date	Folio	Amount	

## *The Journal of Accountancy*

previously explained, most drafts are issued at 30 or 60 days from sight. The experience of exporters is that in some places it is, the business custom to examine the goods before accepting the draft. Thus, the New York office learns the exact due date only when it is informed by the foreign correspondent of the date of acceptance. For this reason it is useless further to burden this book with rulings that in all likelihood will not be used.

This form consists of three sections. The first is that covered by the columns under "amount of draft." The individual items under this column are posted to the credit of the customer's account and the total of the column is posted at the end of the month in the general ledger to the debit of the account under the heading "notes receivable for collection at banks."

The second section of this book deals with the payment of drafts. The information, so far as the drafts receivable register is concerned, is simple. All the facts required are date of payment, folio from which amount is posted and amount of draft. The source from which this information is gathered is, however, very important. A proper form is submitted and explained later.

The third section of the book is designed to cover all cases in which loans are made against specific drafts. It is advisable that in such cases each draft should show clearly the entire history of the transaction, so that when a draft is paid the record will show that the bank has been paid for the loan. This will make it possible to prepare at any time a detailed list of all drafts held by the bank and the net equity in each of such drafts. When the financing of the drafts is done on the basis of group 3, as explained above, the last section of this form is useless.

Form 4 (page 115) shows clearly the method of gathering all the information and recording it for the purpose of the general ledger accounts.

The use of a special form for this purpose is necessitated by the special circumstances. According to usual custom, when notes are collected by the bank the customer receives credit on his regular account. In the cases under consideration, however, such collections, as explained before, are held in a special account for the purpose of meeting the various loans made against drafts, and only the surplus in such special accounts is transferred to the regular account.



*The Journal of Accountancy*

This form is self-explanatory. It is based upon the following journal entries:

When the bank notifies the office that a certain draft is collected

Debit special bank account with net cash collected.

Debit exchange or other expenses incident thereto.

Credit drafts receivable for collection with bank.

Credit interest received.

If this transaction also involves the clearing of a specific loan against a draft, the entry is

Debit loans payable secured by drafts.

Credit special bank account.

The general ledger accounts for drafts and loans against drafts are as follows:

1. Drafts receivable at banks for collection.

This represents all the drafts receivable outstanding. The information for this account is posted as to the

Debit (a) from the drafts receivable register at the end of the month.

Debit (b) from the drafts receivable clearance journal representing any drafts returned unpaid.

Credit from the drafts receivable clearance journal, the total of the credit, drafts receivable column.

2. Special bank account.

This account is debited from the drafts receivable clearance journal with all collections of drafts and credited with any repayments of loans, so that the net balance of this account at any one point represents the actual cash held by the bank from collection of drafts against its loans.

3. Loans payable secured by notes.

This account should represent all loans made against drafts, the credit being by cash and the debit generally by an entry transferring the cash held in the special account against the loan.

Emphasis is laid upon the nature of these accounts and the

### *Accounting for an Export House*

necessity of stating them as outlined above on the ledger, for the very good reason that correct accounting principles require that they be so stated. In the ordinary course of events, however, when transactions are numerous, it is also necessary to provide an export office with the proper subsidiary records—otherwise the auditor is at a great disadvantage in the preparation of his reports.