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## POSSIBILITIES FOR IMPROVEMENTS IN THE ORGANIZATION OF THE SYSTEM FOR ANALYTICAL ACCOUNTING OF RE-EXPORT TRANSACTIONS

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**Abstract:** The paper treats the characteristic features of re-export transactions and the specificity in the technology of their realization, which determine a number of peculiarities and problems in the processes of generation and use of accounting information about them. It highlights on the role and significance of accounting information for detailed analysis of the re-export activity of the entity and for the decision-making processes of its management. The key problems related to the effective functioning of the system for analytical accounting of re-export of goods in the conditions of the hyper competitive, highly risky and dynamically changing contemporary international business environment have been discussed. The possible approaches for introducing improvements in the organization of the system for analytical accounting of re-export transactions have been presented.

In the system of contemporary international economic relations, in addition to the traditional transactions - export and import of goods, the so called specific foreign trade transactions are also carried out. They differ from classical export and import transactions both by their nature and by the technology of their implementation. A typical representative of specific foreign trade transactions is the re-export of goods. It is defined as the purchase of goods in one country for the purpose of their resale in another country, without the goods being subjected to substantial processing.

The selection of a concrete approach of accounting for re-export of goods on the part of a particular entity depends to a large extent on its information needs and its requirements as regards accounting information about re-export transactions. When re-export of goods is an essential part of the overall business of the entity, it is faced with the need to provide sufficient, detailed accounting information about it, necessary for the purposes of internal management processes.

The technology of performing each re-export transaction identifies two main processes for which accounting interpretation is necessary:

- the process of supplying goods intended for re-export;
- the process of selling re-export goods abroad.

A key problem with the organization of the system for analytical accounting is to provide the necessary information to determine the credible final financial result of the re-export transactions. In connection with this need, it is in our opinion that it is expedient to create detailed information on foreign currency exchange rate differences that have arisen during re-export operations.

In relation to the accurate determination of the financial result a significant organizational problem is to achieve consistency in the analytical accounting of the process of supplying goods intended for re-export and the process of selling them abroad.

**Keywords:** re-export transactions, accounting information, detailed analysis.

### 1. INTRODUCTION

In the system of contemporary international economic relations, in addition to the traditional transactions - export and import of goods, the so called specific foreign trade transactions are also carried out. They differ from classical export and import transactions both by their nature and by the technology of their implementation. A typical representative of specific foreign trade transactions is the re-export of goods. It is defined as “the purchase of (good) goods in one country for the purpose of their resale in another country (foreign for the re-exporter), without the goods being subjected to substantial processing” (Karakasheva, 1995, p.96). Re-export transactions “are usually aimed at obtaining a net profit in foreign currency as the difference between the purchase and the sale price” (Atanasov, 1982, p.13)

The main characteristic features of re-export transactions can be represented in the following manner:

- combining of two independent transactions in one international operation - import (purchase) and export (selling) of the same goods;
- the subject of the re-export transaction comprises foreign goods that are not processed or that are subjected to non-substantial treatment, which does not alter their essential content and purpose. By non-substantial treatment is meant the performance of operations such as cutting, repackaging, changing labels and marking, etc. ;
- the main purpose of re-export of goods is to make profit as a result of the skillful use of the dynamics and the differences in the conjuncture of individual markets.

In management aspect, the foreign trade transaction can be considered “as a type of management technology and a type of management decision” (Boeva et al., 1991, p.230).

## **2. POSSIBLE APPROACHES FOR INTRODUCING IMPROVEMENTS IN THE ORGANIZATION OF THE SYSTEM FOR ANALYTICAL ACCOUNTING OF RE-EXPORT TRANSACTIONS**

Taking into account the characteristic features of re-export transactions, from an accounting point of view we can characterize them as complex business processes involving diverse business operations for which it is necessary to create accounting information. In the course of realization of these processes, a number of specific accounting objects arise, such as: receivables and liabilities in foreign currency related to re-export transactions; cash in foreign currency; goods for re-export; costs, revenues and financial results of individual re-export transactions; emerging exchange rate differences, etc. All this unambiguously shows that, as an object of accounting, re-export transactions are characterized by considerable complexity, which arises from their characteristic features and specificity in the technology of their realization. This determines a number of peculiarities and problems in the processes of generation and use of accounting information about them.

The selection of a concrete approach of accounting for re-export of goods on the part of a particular entity depends to a large extent on its information needs and its requirements as regards accounting information about re-export transactions. When re-export of goods is an essential part of the overall business of the entity, it is faced with the need to provide sufficient, detailed accounting information about it, necessary for the purposes of internal management processes. In the contemporary hyper competitive, highly risky and dynamically changing international business environment, the essential premise for the successful management and prosperity of every entity with foreign trade activities is its ability to organize information as its main resource and use it as an important advantage in competition. In the circumstances of nowadays information already has the importance of a resource that “changes the configuration of the world” (Boeva, 2014, p.364) and the scope of this resource expands continuously. The main accounting objects in the realization of re-export transactions are also the main objects of their management. The complexity of these transactions entails the need for greater analyticity in accounting in order to effective information provision of their management. Analytical accounting information plays a key role in the detailed analysis of the re-export activity of the entity. Such detailed analysis is a crucial prerequisite for the successful management of re-export operations and therefore it is imperative that it be provided with information through an effectively functioning system of analytical accounting. The analysis of foreign trade transactions of the entity “is immanently linked to the accounting process and is a natural continuation thereof” (Staneva, Petrova et al., 2018, p.610)

A problem of exceptional importance in the provision of accounting information for the re-export transactions is the rational organization of the structure of the system for analytical accounting by introducing appropriate sub-accounts and analytical accounts in accordance with the specific information needs of the entity related to the detailed analysis and overall management of these operations. It is of substantial significance to ensure organizational unity between the creation of analytical accounting information for the re-export of goods and the subsequent detailed re-export analysis in different perspectives. For this purpose, it is necessary to organize the accounting based on analytical indicators, which correspond to the specific aspects for detailing the analysis of re-export activity. For the efficient management of re-export transactions, of undisputable significance is the provision and use of analytical accounting information for:

- the processes of supplies of goods intended for re-exportation;
- re-export goods defined in a hierarchical nomenclature of the entity, comprising commodity groups, types of goods and assortment units;
- suppliers of goods intended for re-exportation;
- the costs of re-export sales;
- revenues from re-export sales;
- re-export sales customers;
- currency exchange differences arising in the course of individual re-export transactions;
- the financial results of individual re-export transactions.

The technology of performing each re-export transaction identifies two main processes for which accounting interpretation is necessary:

- 1) the process of supplying goods intended for re-export;
- 2) the process of selling re-export goods abroad.

In general, the process of supplying goods for re-export is related to the purchase of goods by a foreign supplier, the movement of those goods abroad and within the re-exporter's country of origin and their reception at a particular

warehouse. When creating accounting information for this process, it is necessary to consistently reflect the operations of:

- the purchase of the goods and the arising of a payment obligation to the foreign supplier to pay their value;
- the payment of the due amount to the foreign supplier;
- the charging and payment of the expenses on acquiring the goods involved in the formation of their supply value (transport, loading and unloading costs, etc.);
- the assignment of the re-export goods to the inventory of the entity.

The entities which carry out re-export transactions and implement as a formal accounting basis for preparation and presentation of financial statements the International Financial Reporting Standards are required, in reporting such transactions, to comply with the requirements of International Accounting Standard (IAS) 21 The effects of changes in foreign exchange rates, for reflecting foreign currency transactions. On initial recognition, foreign currency transactions must be recorded in the functional currency as to the foreign currency amount there should be applied spot rate between the functional and the foreign currency as at the transaction date. “The practical necessity of recording transactions on a daily basis means that a foreign currency transaction is translated at the exchange rate ruling when it is recognized and recorded” (Nobes & Parker, 2016, p.447).

The requirements for reflecting foreign currency transactions set forth in IAS 21 The effects of changes in foreign exchange rates correspond to the approach applied according to Generally Accepted Accounting Principles (United States) for reporting these transactions, known as “the two-transaction method” (Choi & Meek, 2014, p.179). From the position of this approach, the initial recognition of the transaction and the subsequent settlement of payments on it by transmitting cash amounts are treated as two separate transactions. It requires as a basic rule, exchange differences in the valuation of cash, receivables and payables in foreign currencies to be recognized and to reflect the financial results of the current period in which they arise as a result of the change in exchange rates. As a result of the fact that “there is a difference between the transaction date and the date of settling the payments thereon, account relationships emerge - receivables and payables in foreign currencies” (Milanova, Petrova, et al., 2018, p.369).

For accounting the re-export goods supplied from abroad, it is expedient to enter a sub-account “Goods for re-export” into the synthetic account “Goods”. It is also necessary to arrange appropriate analytical accounting by type of goods for re-export containing data about their quantity, price and total value, country from which the goods are supplied and other analytical features at the discretion of the entity. Such analytical accounting must be in line with the analytical accounting in the operational account “Supplies”, and more specifically, under the added to the latter sub-account “Supplies of goods for re-export”. The use of this sub-account is essential for the precise formation of the supply value of the goods for re-export upon their receiving at a particular warehouse. The supplies of goods from abroad “are a typical instance of supplies, which by rule form continuous processes and the supply value of the goods is formed by way of inclusion therein of a number of various constituent elements” (Basheva et al., 2013, p.376). Therefore, it is expedient to perform the accounting of the process of supply of goods with the aid of the operational account “Supplies” in which to form the supply value thereof.

A key problem with the organization of the system for analytical accounting is to provide the necessary information to determine the credible final financial result of the re-export transactions. In connection with this need, it is in our opinion that it is expedient to create detailed information on foreign currency exchange rate differences that have arisen during re-export operations.

Upon payment of the due amount to the foreign supplier for the re-export goods purchased, as well as upon payment of the expenses related to their acquisition, foreign exchange differences usually arise. For their accounting, the accounts “Costs on foreign exchange operations” and “Revenue from foreign exchange operations” are used. Due to the significant impact that exchange rate fluctuations exert on the formation of the final financial result of re-export transactions, in our opinion it is appropriate to enter sub-accounts - for instance, sub-account “Costs on foreign exchange operations upon re-export” and sub-account “Revenue from foreign exchange operations upon re-export” along with the relevant analytical accounts thereto.

The process of selling the goods for re-export abroad includes the following basic operations:

- forwarding the re-export goods to the foreign customer (reflecting of the resulting receivable from the customer and the revenue from the sale);
- the receipt of the cash amounts payable from the foreign customer for the re-export goods sold;
- the charging and payment of costs related to the sale of re-export goods;
- the attaining of a financial result from the re-export transaction - profit or loss.

A significant organizational problem in relation to the accurate determination of the financial result is to achieve consistency in the analytical accounting of the process of supplying goods intended for re-export and the process of

selling them abroad. For the creation of detailed information on the sale of re-export goods, it is necessary to establish to the synthetic account “Revenue from sales of goods” to open a sub-account for instance, “Revenue from sales of goods for re-export” and to arrange appropriate analytical accounting. Through this sub-account information is provided regarding the process of sale of re-export goods and the financial result thereof.

Foreign currency exchange differences that may arise upon receipt of the due amount from the foreign customer for the re-export goods sold as well as upon the payment of the sale-related costs should be accounted in the sub-account “Costs on foreign exchange operations upon re-export” or in the sub-account “Revenue from foreign exchange operations upon re-export”.

An important feature in accounting re-export costs is that they are always related to a particular re-export transaction. This allows for these costs to be applied in decreasing the revenue from re-export sales as soon as the relevant transaction is completed and to determine the financial result thereof. Costs related to the sale of re-export goods at the expense of the re-exporter, including transport, loading and unloading, insurance, etc., shall be accounted for first by economic items, recorded on the debit side of the accounts in the group “Costs by economic items”. Typically, they are related to hires services and have an accounting impact in the account “Costs for hired services” to which, in order to specify the type of costs, suitable sub-accounts can be opened.

The entries in the sub-account “Revenue from sales of goods for re-export” enable the comparison between re-export costs and revenues from the sale of re-exported goods as well as to establish the financial result of the sale. This sub-account is closed with the financial result of the sale of re-export goods in correspondence with the account “Profit and loss for the current year”. In order to create more detailed information on the financial result of the re-export, a sub-account may be added within the account “Profit and loss for the current year” - for instance, “Profit and loss from sales of goods for re-export”, supported by the required analytical accounting. Within the latter, along with the financial result established in the sub-account “Revenue from sales of goods for re-export”, currency exchange differences arising from the re-export will also be accounted as incurred in the course of re-exporting and accounted in the sub-accounts “Costs on foreign exchange operations upon re-export” and “Revenue from foreign exchange operations upon re-export”. These sub-accounts should be closed in correspondence with the sub-account “Profit and loss from sales of goods for re-export”. Thus, it will be possible to determine the final financial result from the re-export of goods, as affected by the amounts of the exchange rate fluctuations. This information plays a significant role in the subsequent detailed analyzes of the re-export operations of the entity and in the decision-making processes of its management.

### 3. CONCLUSION

The main advantages of the accounting approaches presented above are related to the possibilities for improvements in the organization of the accounting process for the financial results of re-export transactions. They allow following up the formation and precise determination of the financial result of each re-export transaction, while taking into account the impact of exchange rate fluctuations occurring in the course of its realization. These approaches are also “consistent with the need to reconcile the information at analytical level and to comply with consistent analytical cross-sections in the accounts in reflecting the processes of supply of re-export goods and the processes of their sale in order to establish the precise financial result of each individual re-export transaction” (Petrova, 2019, p.23).

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