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## The Documentary Credit Accounting in Banks and Companies: AGB Bank and SARL FTB Import as a Case Study

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### Abstract:

This paper aims to determine the difference in the accounting writing when a documentary credit is used in an import operation, using the descriptive approach which opts to describe the theoretical aspect of the accounting treatment of documentary credit at the bank and company and then the case study approach to carry out the accounting entries of an import file of the FTB import SARL. The results show that the Algerian law governing the accounting treatment of this type of transaction at the bank is completely different at the company, But the exchange rate is the same.

**Keywords:** Documentary credit; Bank accounting; Company accounting; Domiciliation; D3.

**Jel Classification Codes:** M41, M2, G21.

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## **1. Introduction:**

Now our days, business transactions getting more powerful and more frequent than ever, this influences the economy directly and indirectly, in both ways the good and bad ones. International trade is becoming little by little the heart and soul of the economy and the national wealth source for the importing and exporting countries and with this growth, the risks of international trading are rising and imposing a lot of pressure on suppliers, which leads to the role of documentary credit, that is known as one of the most trusted methods in international payments due to its high level of satisfaction of its customers, and the diversity of it offers that makes the process of importing much easier and balanced for both sides, the importer and the exporter. The importer, and for reasons of security and quality of operations mode runs for the bank as his first option as an intermediary between him (importer) and the supplier thanks to its secure way of negotiation and commercial contracts, But, we do not have idea about the accounting registration for this operation. For this purpose, the problem that we will try to answer in this paper is:

**What steps do the company and the bank take to account for all steps of a documentary credit of an import transaction?**

In the process, we will try to answer the following minor questions such as:

- What is an Algerian Accounting in Documentary Credit?
- What are the accounting process of documentary credit in bank and company?

The purpose of this study is to know the difference between accounting registration in a bank and a company of an import transaction.

The importance of this article is to know the key requirements for accounting the different stages of a documentary credit of an import operation in both actors: customer's bank and the company which will be shown in this study;

The research methodology is the descriptive and analytical approach that opts to describe the steps of accounting for documentary credit at the bank level as well as the company and then the case study approach to apply the theory on an import dossier.

## **2. Algerian Accounting in Documentary Credit**

In this research will have a general overview at the Algerian system. First part will try to point out the importance of the commercial accounting system. The second part presents accounting in banks and the differences between it and commercial accounting. Anyhow the last part will review the methods of accounting in documentary letters of credit.

## 2.1 The importance of Commercial Accounting System

The importance of the accounting system lies in the following: (مداني ، 2002 ، صفحة 57)

It allows providing detailed and accurate financial information that reflects the true image of the financial position of the institution.

- Clarify the accounting principles to be taken in to account when register in and evaluating accounting.
- It responds to the current and future needs of investors and allows comparison.
- Contributes to improving the management of the institution through a better understanding of the information that forms the basis for decision-making and improving its communication with the various parties interested in financial information.
- It is allowed to compare the financial statements of the institution with another institution belonging to the same sector, whether inside or outside the country, i.e. with countries that apply international accounting standards.

## 2.2 Principals of accounting System (محمد ، 2018 ، صفحة 91)

The new accounting system project adopted various well-known accounting principles like Continuity of Activity, Accounting Cycle, Independence of Cycles, The Economic Unit Entity, Monetary Unit, The Principle of Relative Importance, The Principle of Continuity of Principle of Non-clearing, The principle of the Opening Budget, Caution, The Economic Situation Prevails Over the Legal Form, Historical Cost, Honest Picture.

## 3 Accounting in banks

The accounting system in banks is much deferent then the commercial accounting system and that what we will be showing in the following part. Made by the searcher after going through (لعماري ، 2004 ، صفحة 126)

### 3.1 Definition of the Banking Accounting System

Before talking about the accounting in banks and companies, we should spot the light at Exchange rates since it's an important part in the process.

**The exchange rate** is a record (quotation) in the market price of the foreign currency in the price of domestic currency, namely the price of the domestic currency in foreign currency. In another case it is said that the value of the exchange rate presents the price level in the exchange of one currency into other currencies, and are used in various transactions, among others, international trade transactions, the transaction banking financing, as well as fund raising by banks in the form of savings or deposits with the use of foreign currency. (Saleh, 2021, p. 138)

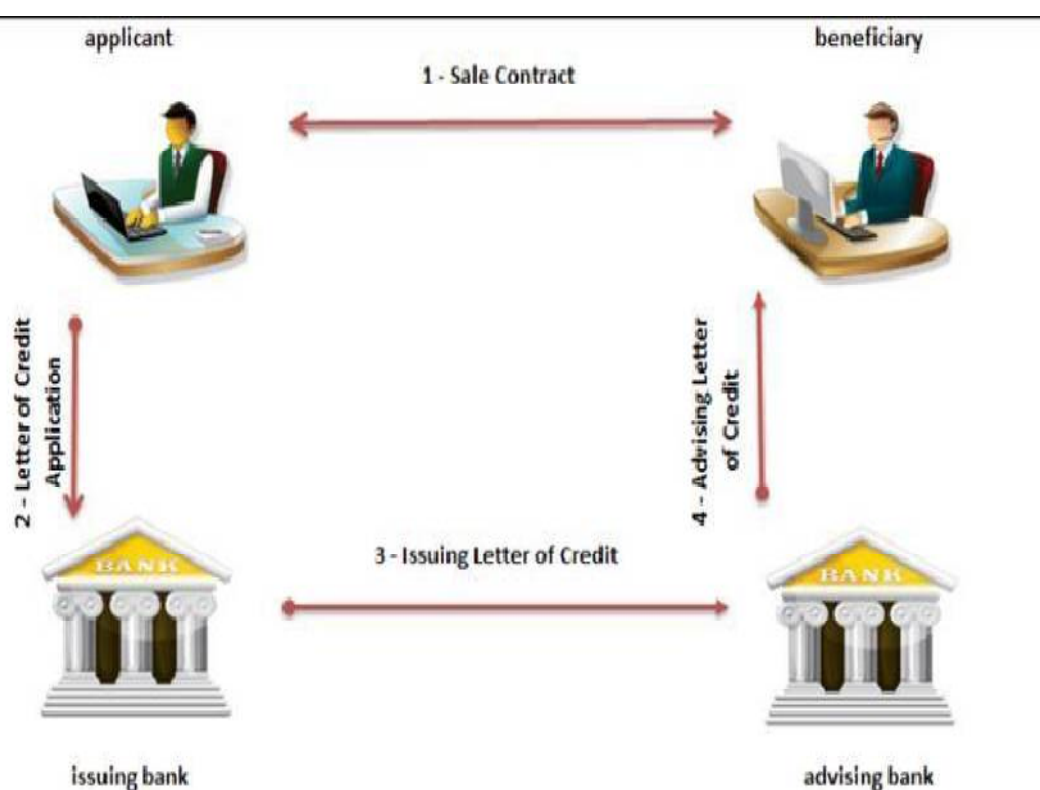
According to Ama (2004), Manual Accounting System is a system, which uses special journals to stream line the journalizing and posting procedures. To handle a large volume of transaction rapidly and effectively, it is helpful to group the transactions into classes and to use a specialized journal for each. Recording and posting are made for these journals using the double entry record keeping. A manual system is a system in which an accountant or the book-keeper is required to post business transactions to the general journal, general ledger and work sheet by hand.(Amahalu &&, 2017, pp. 30-43)

### 3.2 Accounting Registrations of Documentary Credit in Banks

Basically, the contract between the buyer and seller is the root contract from which all contracts stem. The seller's right to demand a letter of credit, and the nature of the credit to which he is entitled, depends on the terms of the contract of sale. On the other hand, the buyer must ensure that the letter of credit issued to the seller is that prescribed by the contract. Fulfillment of this obligation is a condition precedent to the seller's duty to perform his delivery obligation.(AMAEFUILE, 2011, p. 3)

And **Diagram N°01** will explain the contract of sale in simpler way:

**Fig N° 1:: explanation of sale contract**



Source: <https://www.letterofcredit.biz>

We should point out that in the registrations of commercial accounting the registration starts from debit to credit while in banks the registrations are reversed so we start from credit and go to debit. This operation goes through 5 phases: (سالم ، 2000 ، صفحة 83).

### 3.2.1 The acceptance to Opening of Documentary credit domicile

9029		<b>From/</b> Costumer undertakings in exchange for a documentary credit	Xxx	
	9020	<b>To/</b> Bank under takings in exchange for documentary credit <b>Opening the domicile</b>		Xxx

### 3.2.2 Freezing the value of the documentary credit and the application of a commission, insurance and the tax on value added.

22012		<b>From/</b> Current accounts credited	xxx	
		<b>To:</b>		
	222	Acc/ freezed account with warranty		xxx
	7079	Acc/Off-balance sheet commission on operations		xxx
	2611	Acc/Cash insurance in local currency		xxx
	3414	Acc/ Other creditor (tax on value added)		xxx
		<b>Freeze coverage documentary credit amount</b>		

### 3.2.3 Implementation of the documentary credit where the bank makes several accounting writing like next:

- The commitment to pay the documentary credit and his cash insurance:

3695		<b>From/</b> accruals account of documentary credit (foreign currency)	xxx	
	1218	<b>To/</b> Correspondent Bank/Credits <b>The commitment to pay the documentary credit</b>		xxx
2611		<b>From/</b> Cash insurance in local currency	xxx	
	1218	<b>To/</b> Correspondent Bank/Credits <b>Purchase of foreign currencies for the value of insurance</b>		xxx

- When buying foreign currency from the central bank with the local currency

3695		<b>From/</b> accruals account of documentary credit (local currency)	xxx	
	110	<b>To: Central Bank</b>		xxx
		<b>Payment from the central Bank with local currency</b>		

All of the accounts below are registered after the shipment documents arrive and bank receives them, the rest of the documentary credit will be paid. The bank calculates the remainders of the customer's account, the exchange rate at the date of the certification execution. The exchange rate difference being either a loss or a gain. So the registration account would be as follows:

22012		<b>From/</b> Current accounts credited	Xxx	
222		Freezed account with warranty	Xxx	
6060		Currency charge (in the case of <b>loss</b> )	Xxx	
		<b>To/</b>		
	3695	accruals account of documentary credit (local currency)		Xxx
	7060	Currency product (in the case of <b>gain</b> )		Xxx
		<b>Credit the documentary credit final amount from the customer bank account</b>		

- The bank has to pay now, so the documentary credit amount of the correspondent bank must be cancelled. The registration account will be like next:

1218		<b>From/</b> accruals account of documentary credit (foreign currency)	xxx	
	3695	<b>To/Correspondent Bank/Credits</b>		xxx
		<b>cancellation of the commitment registration</b>		

- After the payment is done the banker cancels the Regular registration which is the first registration was done on the opening day and it will be as follows:

9020		<b>From/</b> Bank undertakings in exchange for documentary credit	xxx	
	9029	<b>To/</b> Customer under takings in exchange for a documentary credit		xxx
		<b>Cancellation of the Regular registration</b>		

### 3.3 Accounting Registrations of Documentary Credit in Companies

As the studies showed on the first part the accounting system in banks, this part will show the accounting registration of documentary credit account in the company's accounts, and as stated the process goes through the following steps: (Zineb & Balqis, 2023, pp. 90-89) (حماد، 2006، صفحة 69)

The date of opening the credit and upon receipt of the opening of the credit from the bank with the value that covers the deal which is the value of the Algerian dinar on that date (the date of settlement) multiplied in the value of the currency that both the importer and exporter agreed to.

- At that price, we get the value of the transaction in the national currency, and the accountant records the following accounting entry:

		<b>Opening of Documentary Credit</b>		
542X		<b>From/</b> Bank credits	xxx	
	512X	<b>To/</b> Bank		xxx

- ❖ The bank will freeze the value of the transaction in Algerian Dinar so it won't be used in other payment operations.
- ❖ After the domiciliation file complete the importer will be notified about domiciliation commissions expenses and it will be registered as follow:

		<b>Domiciliation expenses</b>		
232		<b>From/</b> <b>Acc:</b> Installations in progress or....	xxx	
380		<b>Acc:</b> Merchandise purchases	xxx	
4456		<b>Acc:</b> Value-added fee	xxx	
		<b>To/</b>	xxx	
	401	<b>Acc:</b> Suppliers of goods and services		xxx
	4422	<b>Acc:</b> State taxes and fees		xxx
		<b>Invoice N°xx</b>		

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- ❖ Once the payment notice received the bank unfreeze the value of the merchandize and the accountant would register the operationas follows:
- ❖ On the date of payment of imported purchases through bank balance the account- ant register what follows :

512X		<b>Unfreezetheamountofthedeal</b>		
	542X	<b>From/Bank</b>	xxx	
		<b>To/ Bankcredits</b>		xxx

**Exchange Difference** = Payment Amount – Cost of Imported Purchases

401		<b>In Case the Exchange Rate Increase</b>		
666	512	<b>From/</b>	xxx	
		Acc:Suppliersofgoodsandservices	xxx	
		Acc:Exchangeratelosses		xxx
		<b>To/Bank</b>		

401		<b>In Case the Exchange Rate Decrease</b>		
	512	<b>From/Suppliersofgoodsandservices</b>	xxx	
	766	<b>To/</b>		
		Acc:Bank		xxx
		Acc:ExchangerateProfits		xxx

### ▪ Demurrage Charges

Demurrage is a result of a failure to abide by the rules agreed to in a charter agreement. Specifically, it is when a charge is payable to the owner of a chartered ship on the failure to load or discharge the ship with in an agreed time period.

There are a set number of 'free' days for importers and exporters to time to get goods in and out of ports and the logistics involved in this.

In case,there were any demurrage charges, the accountant would register the operation as follow:



656	401	N/./NN	XXX	XXX
		From:		
		Fines, penalties and subsidies granted		
		To:		
		Stock suppliers Demurrage		
		invoice number.		

The introduction to the article should contain a preface to the topic, and then introduce the research problem and make the appropriate assumptions, in addition to determining the research objectives and methodology of the study.

#### 4. Case study

In this part, we will establish the accounting registrations of an import case in an industrial Company and in his bank.

The operation is dated August 15, 2021, where **the company** made a purchase from its Chinese supplier X; the foreign currency used was **USD**, the sum of the merchandises was: **74000 USD**, where the exchange rate of 1USD was **133.96 DZ**. The bank charged a commission of 10%. The bank has decided to freeze the entire amount of the invoice. The exchange rate of 1USD was **124.89 DZ** the day of the payment. And the registrations went as follows

##### 4.1 The Registration of collection receipt declaration in the company

645	445xx	16/06/2021	41 651,26	49 565,00
		From:		
		Acc/other taxes		
		Acc/ tax on value added	7 913,74	
	53	To: the box		

- ❖ Once the bank accepts the demand and freezes the sum of the purchases that are also known as cash against documents, plus a 10% of the sum as a protection against the risk of change, and the accountant registers the following:

$$74000.00 \times 133.96 = 9913040,00 \text{ DZD}$$

$$9913040,00 \times 0.1 = 991 304 \text{ DZD}$$

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542		16/06/2021		
445x		<b>From:</b> Provisions	<b>10904344,00</b>	
		Taxe on value added	<b>188347.76</b>	
		<b>To:</b>		
	512	Bank		<b>11092691.8</b>

❖ After freezing the sum, the company's part of the procedure was done and the rest was left for the bank to handle.

#### 4.2 The accounting registration after receiving the goods

On **2/10/2021**, the accountant received asset of invoices and on **12/10/2021** the goods were shipped to the company's warehouse which was registered as follows:

●**When the company receives the purchase invoice:**

		02/10/2021		
380		<b>From:</b> stocked merchandises	<b>10166179.20</b>	
		<b>To :</b>		
	401*	stock suppliers		<b>10166179.20</b>
		D3N°12251		

●**When the goods enter the warehouse:**

First, the accountant registers the accounting entry of unfreezing the sum in the bank:

		12/10/2021		
512		<b>From:</b> bank	<b>10904344,00</b>	
		<b>To:</b>		
	542	Provisions Unfreeze the deal		<b>10904344,00</b>

- ❖ After the payment of the invoice sum to the supplier, the accountant registers the currency difference as follows:

401*	512	12/10/2021	10166179.20	10166179.20
		From: stock suppliers		
		To: Banks Banktransfere****		

Exchange rate difference = the frozen sum – the paid sum

$$= 10904344,00 - 10166179.20$$

$$= 738164.8\text{DZD}$$

In our case there were exchange earnings so the accountant registered the following:

401*	766	12/10/2021	738164.8	738164.8
		From: stock suppliers		
		To: exchange earnings Results of changes in exchange rates		

### 4.3 Customs Receipt

On 12/10/2021 the accountant received a customs Receipt that was registered as:

380 445***	401***	12/10/2021	1558 070,00 2225 869,00	3783 939,00
		From: Stocked merchandise courante accoun unts		
		To: Stock supplier Receipt n****		

#### 4.4 Freight For warder

On 27/10/2021 SARL XXXX TRANSITET TRANSPORT TRANSITAIRE sent the invoice that was paid early on 12/10/2021

		12/10/2021		
380		<b>From:</b>		
445***		Stocked merchandises	10000,00	
645***		Taxes over revenue	900,00	
		Other taxes	109,00	
		<b>To:</b>		
	401***	Stock suppliers		11009,00
		InvoiceN°XXX/21		

#### 4.5 Shipping Fees

		06/10/2021		
380		<b>From:</b>		
445***		Stocked Merchandises	84081,60	
		Taxes over revenue	15694,00	
		<b>To:</b>		
	401***	Stock suppliers		99775,60
		Bill N°XXX/XXXX/Import		

#### 4.6 Container Guarding Fees

On 06/10/2021 the company received a bill that presents the fees of the container's guard ingand they were registered as next:

		06/10/2021		
380		<b>From:</b>		
445***		Stocked merchandises	72392,00	
		Taxes over revenue	13754,49	
		<b>To:</b>		
	401***	Stock supplier		86146,49
		BillN°XX/XXX/21		

- ❖ After the accounting registration of all the charges and bills the accountant makes the D3 (Annex 1) that represents the counted charges which the importer can add to the initial value of goods to establish as all prices.

## 5. Accounting Registrations in the bank

### 5.1. The acceptance to Opening of Documentary credit domicile:

		15/06/2021		
9029		<b>From/</b> Costumer undertakings in exchange for a documentary credit	74000\$	
	9020	<b>To/</b> Bank under takings in exchange for documentary credit		74000\$
		<b>Opening the domicile</b>		

### 5.2 Freezing the value of the documentary credit and the application of a commission, insurance and the tax on value added.

The next accounting writing would be like next:

		16/06/2021		
22012		<b>From/</b> Current account scredited	11092691.8	
		<b>To:</b>		
	222	<b>Acc/</b> freezed account with warranty		9913040
	7079	<b>Acc/</b> Off-balance sheet commission on operations		991304
	2611	<b>Acc/</b> Cashinsuranceinlocalcurrency		-
	3414	<b>Acc/</b> Other creditor (taxe on value added)		188347.76
		<b>Freeze coverage documentary credit amount</b>		

### 5.3 Implementation of the documentary credit where the bank makes several accounting writing likenext :

- The commitment to pay the documentary credit and his cash insurance:

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3695		02/10/2021		
		<b>From/</b> accruals account of documentary credit (foreign currency)	74000 \$	
	1218	<b>To/</b> CorrespondentBank/Credits		74000 \$
		<b>The commitment to pay the documentary credit</b>		

• **When buying foreign currency from the central bank with the local currency**

3695		02/10/2021		
		<b>From/</b> accruals account of documentary credit (local currency)	9241860. 0	
	110	<b>To:</b> CentralBank  74000*124.89		9241860 .0
		<b>Payment from the central Bank with local currency</b>		

All of the accounts below are registered after the shipment documents arrive and bank receives them, the rest of the documentary credit will be paid. The bank calculates the remainder of the customer's account, the exchange rate at the date of the certification execution. The exchange rate difference being either a loss or a gain. So the registration account would be as follow:

		12/10/2021		
22012		<b>From/</b>		
		Current accounts credited	66984.8	
222		Freezed account with warranty	9913040	
		<b>To/</b>		
	3695	Accruals account of documentary credit (local currency)		9241860.0
	7060	Currency product (in the case of <b>gain</b> )		738164.8
		<b>Credit the documentary credit final amount from the customer bank account</b>		

- The bank has to pay now, so the documentary credit amount of the correspondent bank must be cancel. The registration account will be like next:

1218	3695	12/10/2021	74000\$	74000\$
		From/ accruals account of documentary credit (foreign currency)		
		To/CorrespondentBank/Credits <b>Cancellation of the commitment registration</b>		

- After the payment is done the banker cancel the Regular registration which is the first registration was done on the opening day and it will be as follow:

9020	9029	12/10/2021	74000\$	74000\$
		From/Bank under takings in exchange for documentary credit		
		To/Costumer under takings in exchange for a Documentary credit <b>Cancellation of the Regular registration</b>		

## 6. Conclusion:

In conclusion, we can understand that domiciliation is an important step to present a successful documentary credit operation. Also, the accounting in companies is different then Accounting in banks due to the different operations made in both sides. Finally, the accounting of documentary letters of credits take many steps, It starts from the day of opening the documentary credit until the importer receives the merchandises.

We conclude too that the accounting bank registration is totally different for those in the company:

- The accounting department's main role in companies is to re-monitoring the operations of selling and buying and do their accounting registrations;
- We concluded that both the bank and company follow the costumes made by ICC as well as the laws fixed by the Algerian government.
- Documentary letters of credit have several types and stapes, which require the banks to carefully investigate when implementing any of its types especially those relating to the goods replaced transactions.

