

## SOME CONSIDERATIONS REGARDING LETTER OF CREDIT ACCOUNTING

Veronica GROSU

*e-mail: veronica.grosu@usm.ro**Stefan cel Mare University of Suceava*

Svetlana MIHAILA

*e-mail: svetlana.mihaila@ase.md**Academy of Economic Studies of Moldova*

Violeta CODREAN

*e-mail: codrean2013@mail.ru**Academy of Economic Studies of Moldova*

Iulian DASCĂLU

*e-mail: iuliannnd@gmail.com**Stefan cel Mare University of Suceava***Abstract**

*Cash, as a means of money, is a mandatory component of the accounting system because accounting can only work with values, through which take place the generalization and expression of the reality of economic phenomena. From the point of view of cash classification, depending on the presentation, we identify the letter of credit, known as a financial instrument for securing payment, also illustrating its classification with the necessary example. The topicality of the article results from the consideration that researching the specialized literature for the last years, the authors noticed the absence of articles addressing this topic. The research methods used include such methods as the normative documentary method, induction and deduction, analytical study, etc. The purpose of this article is to highlight the main arguments of using the letter of credit in terms of literature, both national and international, in order to motivate economic agents in its use, because from the moment of issuance, the supplier is assured that all the provisions of the commercial contract will be observed by the buyer.*

**Key words:** *cash; documentary letter of credit; financial instrument; instrument; letter of credit;*

**JEL classification:** *M40, M41*

**I. INTRODUCTION**

The economic activity of any entity, regardless of the legal form, depends to a total extent on the cash resources it has and the capacity of their efficient management in the commercial relations with other economic agents. As a result, it becomes necessary to divide cash into categories, which will attract buyers and suppliers due to the convenience and possibility of choosing the method of payment.

No economic entity operates without the cash-goods circuit, i.e. “the operations of receipts and payments carried out by the entity with various natural and/or legal persons, carried out through a financial institution represent non-cash settlements” (Coman, 2007, p.136).

Depending on the type of sale-purchase transaction, by cash or using current accounts in national and foreign currency, entities may also open other accounts for the settlement of transactions. These special accounts keep track of cash in the form of letters of credit, bank cards and other accounts provided by the legislation in force.

*The topicality of the article* requires the approach of the letter of credit, as a notion, which has recently become a controversial topic, both nationally and internationally, due to the economic reality that shows that the letter of credit is on the list of less studied and used cash, while researching literature and relevant journals, it has been found that in recent years there has been a lack of articles related to the topic of the letter of credit.

*The purpose of the article* is to examine and analyze the theoretical and practical aspects of letter of credit accounting and the particularities of its retention.

In order to achieve the set goal, the following *research objectives* were established: a detailed description of the economic content of the letter of credit based on contemporary literature; research of the legislative and normative basis that regulates the letter of credit accounting; revealing the particularities related to the classification, definition and composition of letters of credit; exposing by means of accounting formulas the theoretical situations regarding the letters of credit accounting; drawing conclusions especially on related information.

Achieving the proposed objectives will allow obtaining clear information about the functionality and usefulness of letters of credit as a form of settlement.

## II. RESEARCH METHOD.

The research methodology involves the use of the accounting methods. During the process of writing the article, we used the normative documentary method to analyze the specialized literature and web sources, through a analytical and critical study. The idea of using the respective means of payment was developed and the basic background of the topic was presented.

## III. LITERATURE REVIEW.

The emergence and continuous evolution of money stimulates the market economy by involving the use of money in any form accompanying any economic operation. In the literature, at the national level the approach of the letter of credit is less common, especially in specialized journals. The reason for its lack and low use is the high costs and convenience of using regular current accounts.

The first documentary evidence of the use of the letter of credit dates from the early nineteenth century and can be found in the archives of banks in the emporiums of the financial world at the time: Paris, Amsterdam, London, etc., being used in business transactions with the Far East countries. In the twentieth century, attestations are much more numerous (<https://administrare.info/economie/6183-platile-internationale-prin-acreditiv>).

According to the information provided by *the Online Digital Library of Administration and Management*, the letter of credit as a financial instrument of payment can be discussed only after the First World War when the International Chamber of Commerce was created, among its priority areas being to facilitate transactions (<https://administrare.info/economie/6183-platile-internationale-prin-acreditiv>).

From the point of view of the legislative regulation, at international level, the letter of credit is subject to *the Uniform Customs and Practice for Documentary Credits, Publication 600 of the International Chamber of Commerce based in Paris*. At national level, operations with letters of credit are regulated by *Regulation no. 179 of 27.06.2019 on the automated interbank payments system*.

In the literature we identify different concepts of Romanian researchers, for example in the vision of the author *Balteş N.*, the letter of credit is a form of settlement through which payments made by the economic entity take place as the products are delivered, executed or provided by the banking company to which he has opened his account (Balteş and Ciuhureanu, 2014, p. 244).

The same opinion is shared by the Romanian author *Epuran M.*, the letter of credit being a “form of settlement by which payments are made as deliveries, works or services from an amount reserved for this purpose by the buyer (beneficiary) and kept at the disposal of the supplier by the bank to which he has his account” (Epuran, Băbăiță et al, 1994, p. 167).

Appreciating the identified definitions, the authors noticed that *Munteanu V.* introduces in his definition the expression „separate bank account”, in his conception, the letters of credit are “available in moldovan lei or in foreign currency, kept in a separate bank account, available to the supplier, from this payments are to be made to the supplier, as the goods are delivered, the works are performed or the services are provided” (Munteanu, Țintă et al, 2009, p. 260).

In the vision of the Romanian author *Bojian O.* the “letters of credit are used especially in international relations, but also in domestic relations between buyers and sellers, due to the advantages they present” (Bojian, 1999, p.199) and as a result, in order to rank the letters of credit and their example, the author proposes their classification based on four general criteria.

As the topic is researched, the discovered authors overlap in the ideas issued, also in the vision of *Ristea M.*, the letter of credit represents “the funds kept at the bank in a separate account at the disposal of the supplier, from which payments to the extent of delivery of goods and products, execution of works and provision of services” (Ristea, 2005, p. 343).

According to *the Explanatory Dictionary of the Romanian Language*, the letter of credit is a “settlement method by which a bank assumes responsibility to pay, by order of the buyer, in favor of the seller of goods or services, a certain amount, if the seller presents the documents provided, which certifies the delivery of goods or the provision of promised services” (<https://dexonline.ro/definitie/acreditiv>), simultaneously DEX also offers a laconic explanation for the letter of credit – financial settlement document through the bank or a savings bank.

At the same time, *the Romanian Economic Dictionary* reproduces the essence of the letter of credit by “separating an amount from the entity’s bank account into a special account at the disposal of a certain supplier from which payments are to be made to this supplier for goods, works performed or services provided, it is used when the paying unit has not paid its obligations to the supplier on time and it requests the guarantee of the collection of the rights due to it, by opening the letter of credit, a document by which a bank, at the request of its client, opens a loan to a third party with a determined amount and duration, at a corresponding agency or bank” (<http://www.contabilitateafirmei.ro/dictionar/acreditiv.htm>).

At the international level, *the National Center for Textual and Lexical Resources of France* defines the letter of credit as a “letter requesting a bank to one of its branches or one of its correspondents to open a loan in favor of one of its customers” (<https://www.cnrtl.fr/definition/accr%C3%A9ditif>), the center also displays details about the etymology of the word, according to which the letter of credit is “a term accepted by banking practice to designate the letter given by a bank to its client, in order to accredit it to a provincial or foreign correspondent, who will open a loan”.

The same opinion on how to define it is shared by *the International Financial Reporting Standards*, as the letter of credit represents “a certain conventional obligation of cash assumed by the issuing bank, on behalf of the payer to make payments to the beneficiary of the funds upon presentation of documents, which correspond to the conditions of the letter of credit, or to empower another bank to make such payments” (Turcanu and Golocialova, 2015, p. 166).

According to *the Practical Guide to Trade Facilitation* - a tool for simplifying cross-border trade, developed by the United Nations Economic Commission for Europe, the letter of credit „gives the exporter an irrevocable guarantee that it will be paid by the bank issuing the letter of credit, provided it deliver the economic goods to the importer, in accordance with the contractual conditions and the documentation established in due time; it also assures the importer that he will receive the ordered economic goods, in accordance with the relevant documentation and the terms defined in the purchase contract” (<http://tfig.unece.org/FR/contents/letters-of-credit.htm>).

*The letter of credit* is ever-present, in the Russian-English glossary *Trade Facilitation Terms*, prepared by the Eurasian Economic Commission, in collaboration with the Chamber of Commerce and Industry, the letter of credit is defined as a document – „the bank’s order to one or several banks to make payments by order and, at the expense of the client, to a natural or legal person within the amount specified in the conditions of the letter of credit” (<https://unece.org/fileadmin/DAM/trade/Publications/ECE-TRADE-377EngRus.pdf>).

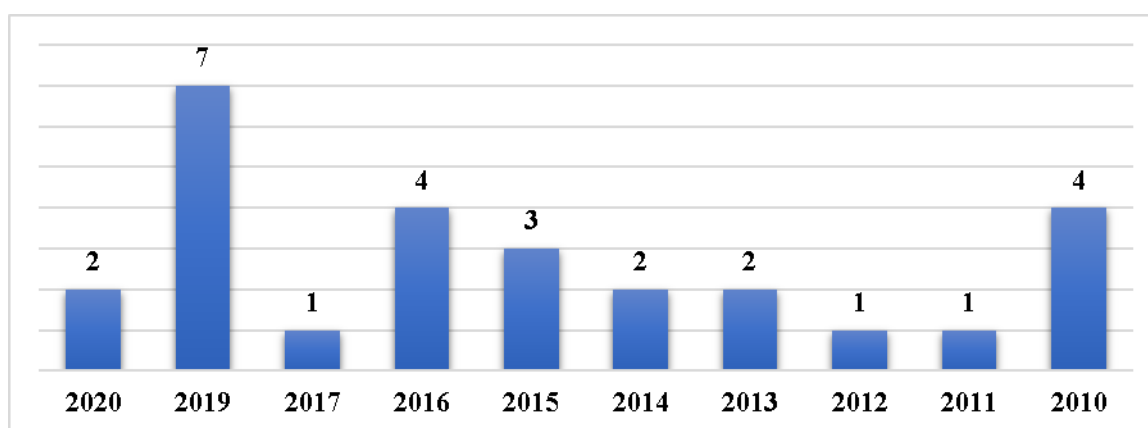
In international commercial transactions and in relations with economic agents, payment is an essential moment. In particular, *the Practical Guide to Trade Facilitation* considers that „faster payments fully improve the ability of enterprises, especially small and medium-sized enterprises (SMEs), to compete and establish themselves in the market” (<http://tfig.unece.org/FR/contents/intro-domain-payment.htm>).

To identify the scientific research that addressed the topic of the letter of credit, a search was performed through the most listed database, Web of Science, with the setting of the following indicators:

- title - „letter of credit” or „letters of credit”.
- period – 2010 - 2021.
- indexes - SCIEXPANDED, SSCI, A & HCI, ESCI, CPCI-S, CPCI-SSH, BKCI-S, BKCI-SSH, CCR-EXPANDED, IC.

A total of 27 scientific research was found that could be interpreted depending on the years of publication, the place of appearance and the correlation between the keywords identified in these studies.

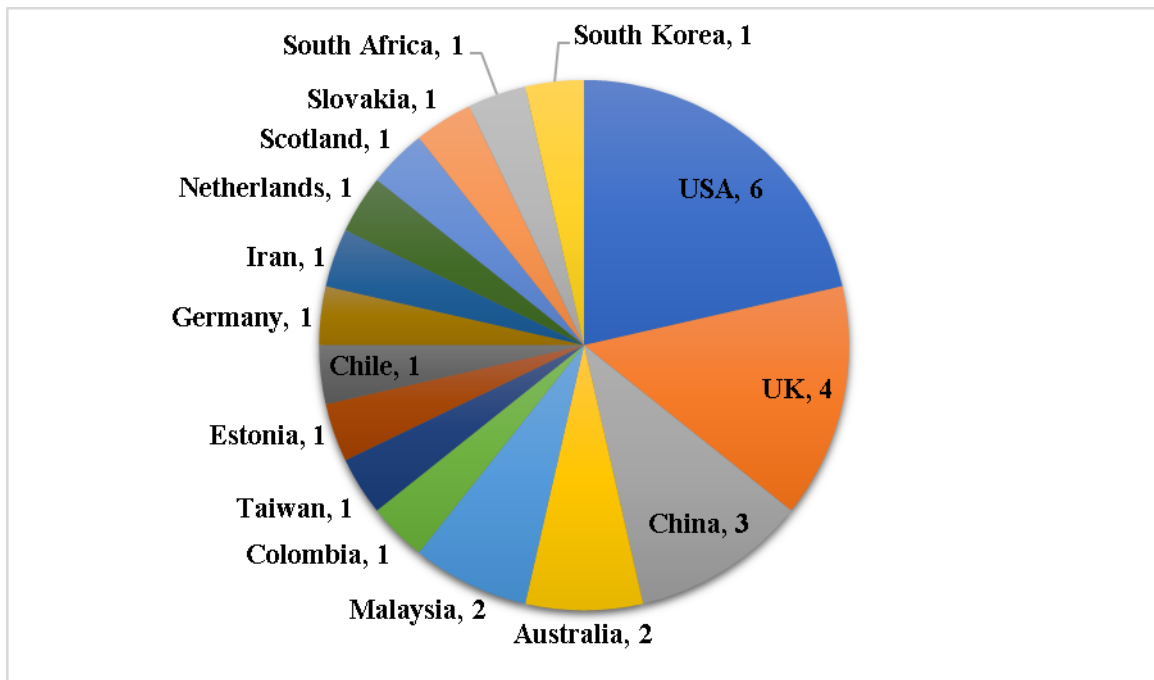
The diagram presented in Figure 1 shows the evolution of research published during the period between 2010 and 2021, which shows a stagnation in the number of research published in recent years, compared to 2019, when the maximum number of 7 publications was reached.



**Figure 1 – Distribution of articles by the year of publication (2010-2020)**

*Source: Elaborated by the authors based on the results from the Web of Science platform*

The limited number of papers addressing the letter of credit is only an opportunity that can be seized by young researchers, who are looking for an interesting topic, undisclosed in its entirety.

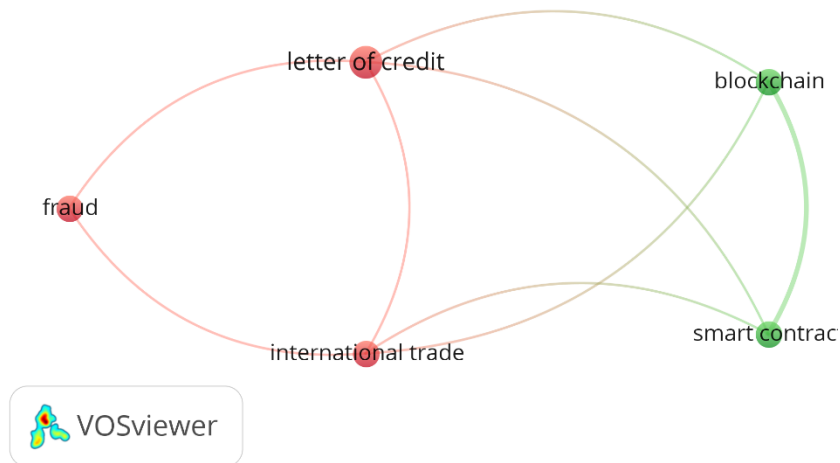


**Figure 2 – Geographical distribution of publications**

Source: Elaborated by the authors based on the results from the Web of Science platform

Figure 2 shows the analysis of scientific publications by the countries where they were published, being defined three leaders: the United States, the United Kingdom and China. The other 14 elaborated researchers have different origin countries, among which are not Romania and the Republic of Moldova.

To determine the interconnection of the identified scientific research, we used keyword mapping using VOSviewer software. This software offers the opportunity to map clusters, links and distances between them, presenting the network of interconnections between keywords.



**Figure 3 – Keywords map grouped in clusters**

Source: Elaborated by the authors via VOSviewer

Based on the information downloaded from the Web of Science platform, the keyword map was sketched using VOSviewer, which is shown in Figure 3. It includes two clusters, differentiated by red and green. The size of the clusters shows the number of works that contain the keyword. The branches between the clusters differ in thickness, the thick branches showing a stronger connection, and the thin ones being associated with a weak co-appearance of the keywords. From figure 3 it can be deduced that the main keyword „the letter of credit”, is approximately equally correlated with such notions, such as *international trade*, *fraud*, *blockchain*, *smart contract*. These correlations can be used as clues for future research issues.

IV. BASIC CONTENT

Due to the expansion of international relations and transactions, foreign trade encompasses factors such as distance, the variety of laws in each country, the difficulty of the payments, ensuring the good faith of the economic agent, the use of letters of credit becomes a substantial aspect of international trade. As a payment technique, the letter of credit has several characteristics (<https://administrare.info/economie/6183-platile-internationale-prin-acreditiv>):

**The formalism** or the documentary character, in the sense that the exporter can claim the payment only based on the documents attesting the fulfillment of the conditions imposed by the letter of credit. On the other hand, the banks will decide to pay exclusively based on the documents, as they do not have the task of controlling the goods (the bank must check only the existence of the documents and their content), respectively their compliance with the contents of the letter of credit.

**Independence** from the basic contractual relationship, in the sense that the obligations assumed by the parties, even if they are based on a commercial contract, are autonomous from it, and their scope is the one specified in the letter of credit, in this sense, it is specified as letter of credit it is a separate transaction from the sale transaction.

**The firmness** of the bank commitment, in the sense that the bank undertakes to make the payment, in accordance with the instructions of the letter of credit, and its commitment remains firm until, eventually, it receives other instructions than the initial ones.

**Adaptability**, in the sense that, by its types, the letter of credit can be suitable for different internal or external trade operations.

**Safety**, the letter of credit ensures the protection of the interests of all parties involved. Thus, the exporter has the certainty that, in compliance with the obligations specified in the letter of credit, will collect the value of the goods, the importer is assured that payment of the goods will be made only after the documents specified in the letter of credit are deposited with the paying bank and the issuing bank is protected by pledge on delivery documents.

A distinct feature of the settlement form is the lack of total trust of suppliers in their customers, the fact that they will honor in time the value of goods delivered, work performed or services provided, at this time of the economic transaction is required to open letters of credit, i.e. make the transfer of a sum of money from the client's account to a letter of credit account on the supplier's account. Several types of letters of credit can be opened, for which *Bojian O.* proposes the classification according to several criteria presented in figure 1:

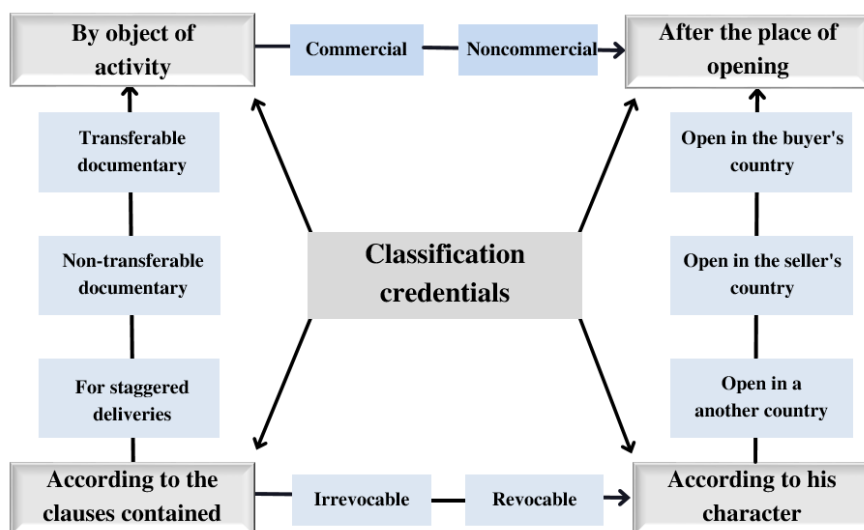


Figure 4 – Letter of credit classification criteria

Source: elaborated by the authors based on *Bojian, 1999 "Contabilitatea întreprinderilor"*

Based on Figure 1, the authors will detail and exemplify all types of letters of credit that may arise in the process of economic and financial activity of the entity, such as:

**The commercial letter of credit** is intended for the sale of goods, „standard type letter of credit commonly used in international trade and may also be called documentary letter of credit or import/export letter of credit, for example seller A from Moldova sells to buyer B from Romania a batch of goods, a bank acts as a neutral third party to release funds when all the terms of the agreement have been met”.

**The non-commercial letter of credit** is also intended for other activities, generally for the provision of services, facilitating the path of international trade or other transactions such as construction projects.

**The transferable documentary letter of credit** is that the amounts in it can also be used to pay other suppliers, indicated by the beneficiary. That is, the main beneficiary of the documentary letter of credit may order the issuing bank to transfer all or part of the letter of credit.

**The non-transferable documentary letter of credit** indicates that only the person for whom the letter of credit was opened can benefit from the amounts entered.

From the point of view of Moldovan researchers *Grigoroi L.* and *Jaloba L.*, the documentary letter of credit is „the method of payment by which the debtor (buyer) instructs his bank to pay the beneficiary (seller) a sum of money, at sight or on a set date, based on presentation to the bank of certain documents within a specified period” (Grigoroi and Jaloba, 2007, p. 64).

**The installment delivery note**, in which the letter of credit is opened in installments and payments are made in installments only after the delivery of a consignment of goods, „in certain installments determined quantitatively and within certain time limits” (<https://e-juridic.manager.ro/dictionar-juridic/acreditiv-pentru-livrari-esalonate/136.html>).

**The irrevocable letter of credit** represents the letter of credit that cannot be modified or canceled without the consent of the principal, the beneficiary, the issuing bank and the beneficiary bank, respectively appears when it is modified only with the consent of all interested partners. This type provides a guarantee to both parties and „should always be obtained from a commercial bank and not drawn up by the importer or exporter” (<https://www.thebalance.com/irrevocable-letter-of-credit-315037>).

From the point of view of the exporter, the most advantageous is the irrevocable documentary letter of credit, domiciled at a bank in his country and with payment at sight (<https://administrare.info/economie/6183-platile-internationale-prin-acreditiv>), because:

- 1) It is ensured that it will not be withdrawn or modified by the principal within the validity period (it is irrevocable).
- 2) Benefits from the guarantee of a third-party bank (other than the issuing one) that the payment will be made (it is confirmed).
- 3) The payment will be made without delay, saving the time required for the transmission of documents between the banks of the two countries (it is domiciled in the exporter’s country).
- 4) Will collect the equivalent value of the goods as soon as the documents are submitted to the paying bank (it is with payment at sight).

**The revocable letter of credit** appears when it can be closed, withdrawn, at the request of the payer, i.e. „it can be modified or canceled at any time, without the beneficiary having been notified in advance” (<https://e-juridic.manager.ro/dictionar-juridic/acreditiv-revocabil/138.html>). Yet, despite the differences, all letters of credit meet the same basic elements (<https://www.thebalance.com/irrevocable-letter-of-credit-315037>):

- payment guarantee made by a bank.
- is made on behalf of a buyer (or applicant) to pay a seller (or beneficiary) an agreed amount of money.
- specific documents are required to verify whether goods/services have been provided.
- the time limit, dates, locations and how the transaction will take place are specified.
- all documents must comply with the terms set out in the letter of credit.

In the vision of the Moldovan author *Caraman S.* the classification of the letter of credit in the Republic of Moldova is made according to two basic criteria (Grigoroi, Lazari et al, 2021, p. 361):

**1. According to the legal form**, the letter of credit is classified as follows:

- a) Revocable.
- b) Irrevocable.

**2. According to the degree of coverage**, the letter of credit is grouped in:

- c) Covered – „letter of credit, at the opening of which the issuing bank transfers from the payer’s account or credit granted to the payer the full amount of the letter of credit to the beneficiary bank, provided that these funds are used to pay the letter of credit”.
- d) Uncovered – „letter of credit, at the opening of which the issuing bank transfers to the beneficiary bank only a part of the amount of the letter of credit, with subsequent completion, as required by the letter of credit account”.

Also, *Caraman S.* mentions that „on the territory of the Republic of Moldova only the covered and irrevocable letter of credit are used” (Grigoroi, Lazari et al, 2021).

According to the research of *the Online Digital Library of Administration and Management*, „in the settlement of international transactions the documentary letter of credit occupies a predominant place - over 70%”, as a result, Moldovan researchers *Grigoroi L.* and *Jaloba L.* indicate in the article „*Accounting settlement of letters of credit*” 4 parts in the development of a documentary letter of credit (Grigoroi and Jaloba, 2007), namely:

- 1) **The importer** (principal), who instructs his bank to open the letter of credit based on the sale-purchase contract.
- 2) **The issuing bank** (issuer), which opens the letter of credit.

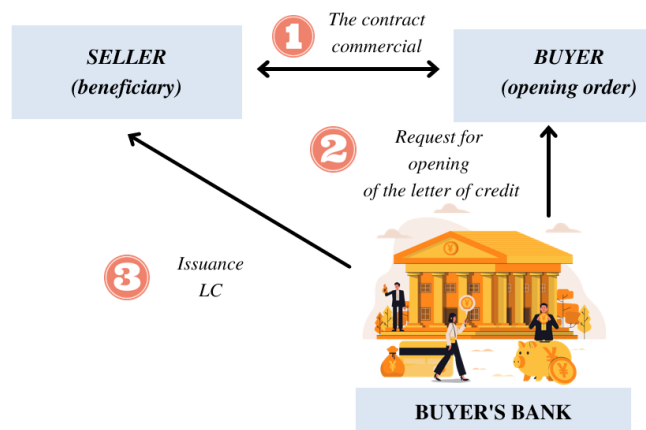
- 3) **The bank of the exporter** (notifier), who informs his client of the opening of the letter of credit, sending him a copy of the letter of credit.
- 4) **The exporter** (beneficiary), who sends the goods and then presents to his bank the shipping documents, drawn up in strict accordance with the conditions of the letter of credit.

According to the French opinion, of the brokers *Altassura Group*, specialists in the sectors of factoring, financial risk and insurance, the letter of credit can be used in two different ways (<http://www.assurance-credit-entreprise.fr/glossary/lettre-de-credit/>):

- **directly**: only one bank is involved, the buyer’s bank performs the issuance and configuration, notifies the buyer directly.

- **indirectly**: the buyer requests the intervention of his bank in the implementation of the documentary credit. In this case, two banks are involved, the bank (notifier) of the seller and the bank (issuer) of the buyer.

The French site - *etrepaye.fr*, specialized in debt management, offers the general public information about the flows of documents and information in the process of conducting a letter of credit (<https://www.etrepaye.fr/la-lettre-de-credit-c8-r815.php>), the commitments of all parties being defined by uniform rules on letters of credit, publication 600 of the International Chamber of Commerce from Paris:



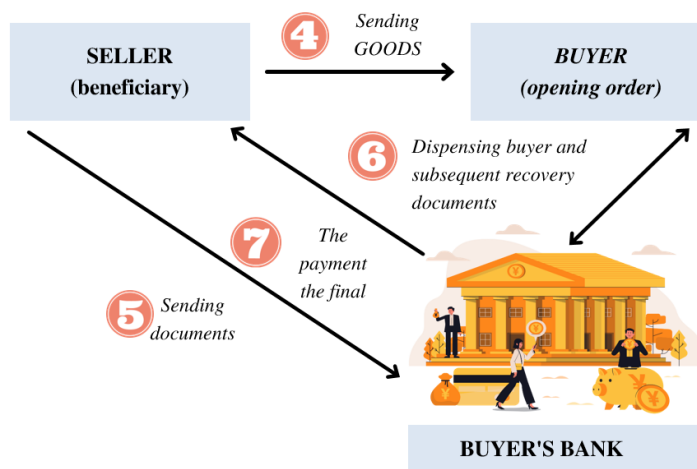
**Figure 5 – Detected flows in the process of conducting a letter of credit (part 1)**

Source: elaborated by the authors based on <https://www.etrepaye.fr/la-lettre-de-credit-c8-r815.php>

**Step 1 - Concluding the contract** between the buyer/importer and the seller/exporter. During trade negotiations, it is agreed that the payment method would be a letter of credit.

**Step 2 - Opening instructions.** The buyer asks the bank to open a letter of credit. In the opening instructions, the customer fills in a form specifying the documents required for the import of goods. The buyer’s bank verifies the creditworthiness of its customer, as well as the signatures on the application form. It also ensures that the instructions are clear and complete.

**Step 3 - Opening.** The buyer’s bank issues the letter of credit and sends it to the seller.



**Figure 6 – Detected flows in the process of conducting a letter of credit (part 2)**

Source: elaborated by the authors based on <https://www.etrepaye.fr/la-lettre-de-credit-c8-r815.php>

**Step 4 - Shipment of goods.** The consignee sends the goods and prepares the documents required in the letter of credit instructions.

**Step 5 - Sending documents.** The beneficiary sends the documents to the issuing bank. It checks whether the requirements of the letter of credit are complied with. If errors are present, the beneficiary is no longer guaranteed to be paid.

**Step 6 - Debiting the customer and delivering documents.** The issuing bank debits to the buyer the amount of the letter of credit less the applicable fees and delivers to the buyer all the documentation. The customer can then release the goods and take possession of them.

**Step 7 - Payment.** The bank pays the seller minus any applicable fees.

Analyzing the process of conducting a transaction by letter of credit, the authors noted in the information provided by *the Practical Guide to Trade Facilitation* another step, namely that „the applicant submits the relevant documents to the carrier to take possession of the goods. This last step completes the letter of credit cycle” (<http://tfig.unece.org/FR/contents/letters-of-credit.htm>).

The documentation required for a letter of credit depends on the level of complexity of the operation and the degree of security in which the two parties wish to frame the transaction, namely: payment security, security and transparency regarding the goods description, customs security, transport process and timely delivery and other types of transaction risks. The compliance of the documents should be verified - this is an important feature of the letter of credit acceptance/endorsement process, especially regarding the exporter’s bank. The existence of a strong and well-identified guarantee and detailed documentation make documentary letters of credit one of the safest forms of lending. These documents and guarantees are internationally recognized by commercial law worldwide and are subject to arbitration in the case of non-payment or other transaction issues (<http://tfig.unece.org/FR/contents/letters-of-credit.htm>).

In the opinion of the Romanian researcher *Epuran M.* „the advantages offered by cashless transactions determine that about 85% of cash transactions are carried out in this way, which also justifies the constant concern to improve cash forms and instruments in order to increase the speed of cash transactions between customers” (Epuran, Băbăiță et al, 1994, p. 167).

The wide use of the letter of credit is conditioned by the advantages it has for both the seller and the buyer, so the authors propose their analysis in parallel:

<b>ADVANTAGES</b>	→ Security of all involved parties given that payment is made only if the provider complies with the terms;
	→ Flexibility in various forms of international transactions;
	→ Confidentiality and speed in carrying out economic operations.
<b>DISADVANTAGES</b>	→ It is used for a single economic operation and for a single buyer;
	→ It is an expensive process;
	→ In the case of complaints, the settlement process is laborious and long.

**Figure 7 – Letter of credit advantages and disadvantages**

*Source: Elaborated by the authors*

To systematize the information on the existence and movement of cash in letters of credit, the synthetic account „Other bank accounts”, the sub-account „Letters of credit” is intended.

The „Other bank accounts” account is an asset account. The debit of this account reflects the collection of cash in special accounts with banks, and in credit - the use of cash. The balance of this account is debit and represents the balance of unused cash, recorded at the end of the management period.

The letter of credit is paid by bank transfer in full or in part, giving security to all parties involved, it is forbidden to pay the letter of credit in cash. The analytical evidence of the letters of credit is kept on the banks where the letters of credit are open and on the clients who benefit from letters of credit (Grigori, Lazari et al, 2011).

Given that the letter of credit is predestined for settlements with a single beneficiary and is paid only by bank transfer, the authors will reveal a concrete and current situation through a *fictitious example* with the accounting of the necessary operations.

## V. EXAMPLE

*„ENERGOCOM” Co, as an importer, procures electricity from the Kuciurgan Thermal Power Plant, on the left side of the Dniester - as an exporter. The contracting parties have agreed to use the letter of credit, respectively, the „ENERGOCOM” Co opened a letter of credit in the amount of USD 30,000, the commission for its opening being of 1.5%. Under the terms of the commercial contract, the debt to the exporter is USD 25,000. Respectively, the amount of the unused letter of credit is transferred to the current account in national currency.*



- Exchange rate on the date of opening the letter of credit - 17.19 MDL/USD.
- Exchange rate on the date of the transaction - 17.18 MDL/USD
- Exchange rate on the date of debt payment - 17.20 MDL/USD.
- Exchange rate on the date of transferring the difference in the account - 17.21 MDL/USD.

„ENERGOCOM” Co (importer) has registered the following economic operations:

- 1) **Reflecting the opening of the letter of credit (30 000 USD \* 17,19 MDL/USD)**
  - Debit account „Other bank accounts”, sub-account „Letters of credit” - 515 700 MDL
  - Credit account „Current accounts in foreign currency” - 515 700 MDL
- 2) **Reflecting the amount of the commission withheld at the opening of the letter of credit (515 700 \* 1,5%)**
  - Debit account „Administrative expenses” - 7 735,50 MDL
  - Credit account „Current accounts in national currency” - 7 735,50 MDL
- 3) **Reflecting the purchase of electricity from the exporter (25 000 USD \* 17,18 MDL/USD):**
  - Debit account „Administrative expenses” - 429 500 MDL
  - Credit account „Current trade payables”, sub-account „Trade payables abroad” - 429 500 MDL
- 4) **Reflecting the payment of the commercial debt to the exporter (25 000 USD \* 17,20 MDL/USD):**
  - Debit account „Current trade payables”, sub-account „Trade payables abroad” - 430 000 MDL
  - Credit account „Other bank accounts”, sub-account „Letters of credit” - 430 000 MDL
- 5) **Reflecting the exchange rate differences related to the debt to the supplier (430 000 – 429 500):**
  - Debit account „Financial expenses”, sub-account „Expenses from exchange rate differences” - 500 MDL
  - Credit account „Current trade payables”, sub-account „Trade payables abroad” - 500 MDL
- 6) **Reflection of exchange rate differences related to cash remaining in the letter of credit (430 000 – 429 750 (25 000 \* 17,19 MDL/USD)):**
  - Debit account „Other bank accounts”, sub-account „Letters of credit” - 250 MDL
  - Credit account „Financial income”, sub-account „Income from exchange rate differences” - 250 MDL
- 7) **Reflecting the transfer of the unused amount of the letter of credit to the current account in national currency (5 000 USD \* 17,21 MDL/USD):**
  - Debit account „Current accounts in national currency” - 86 050 MDL
  - Credit account „Other bank accounts”, sub-account „Letters of credit” - 86 050 MDL
- 8) **Reflecting the differences in the exchange rate related to the unused amount of the letter of credit (86 050 – 85 950 (5000 USD \* 17,19 MDL/USD)):**
  - Debit account „Financial expenses”, sub-account „Expenses from exchange rate differences” - 100 MDL
  - Credit account „Current accounts in national currency” - 100 MDL

An important aspect in the biography of letters of credit is revealed by the *United States Federal Bureau of Investigation* in the article „*Letter of Credit Fraud*” (<https://www.fbi.gov/scams-and-safety/common-scams-and-crimes/letter-of-credit-fraud>) that letters of credit „are sometimes used to defraud banks by presenting false documentation indicating that the goods were shipped then when in fact they were not. Letter of credit is sometimes also used as part of fraudulent investment schemes” ([https://en.wikipedia.org/wiki/Letter\\_of\\_credit](https://en.wikipedia.org/wiki/Letter_of_credit)).

## VI. CONCLUSIONS

Regardless of the organizational and legal structure and the field of activity, the entity is obliged to keep the cash available in financial institutions and to make payments using various forms of non-cash settlements.

According to research, the authors have identified the phrase „cashless society” which is based on the idea that, in the future, money will be replaced by electronic means (<https://www.thesun.co.uk/news/2034280/one-in-seven-brits-no-longer-carries-cash-as-we-become-increasingly-reliant-on-card-and-smartphone-payments/>). An eloquent example is the position of the United Kingdom, which, according to a recent study, reported that 1 out of 7 people no longer use cash.

In the process of using the letter of credit, the documents occupy the primary place, the banks only examine the documents proving that the seller acted in accordance with the provisions of the letter of credit. The bank is not concerned with the quality of goods or other items that may be important to the buyer and seller ([https://legacy.trade.gov/TradeFinanceGuide\\_All.pdf](https://legacy.trade.gov/TradeFinanceGuide_All.pdf), p.7). This does not necessarily mean that sellers can send a shipment of garbage: buyers can insist on a certificate of inspection as part of the transaction, which allows someone to review the shipment and ensure that everything is accurate and acceptable ([https://instruction2.mtsac.edu/rjagodka/Importing\\_Information/Letter\\_Of\\_Credit\\_Guide.pdf](https://instruction2.mtsac.edu/rjagodka/Importing_Information/Letter_Of_Credit_Guide.pdf), p. 10).

Ultimately, this financial instrument of payment - the letter of credit, is less used and encountered because it is complicated and making a mistake can cause a costly obligation. And yet, the letter of credit, indirectly, represents a lifeline that deserves to be applied in practice because it is the right tool to facilitate trade, on the improvement of which work is being done internationally.

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