

PRACTICAL ASPECTS RELATED TO THE ACCOUNTING OF FOREIGN CURRENCY MARKETING IN THE LICENSED BANKS OF THE REPUBLIC OF MOLDOVA

Tatiana ȘEVCIUC, Veronica PRISĂCARU

The State Agrarian University of Moldova, 44, Mircești Street, MD-2049, Chișinău, The Republic of Moldova, Phone: + 37322432815. E-mail: sevciuctatiana@mail.ru, v.prisacaru@uasm.md

Corresponding author: sevciuctatiana@mail.ru

Abstract

Commercial banks perform operations on the currency market in order to buy a certain amount of currency that is necessary in their currency activities with clients, to receive speculative earnings as a result of currency purchase-sale transactions, as well as to cover the risks that appear in currency exchange fluctuations. This article evaluates the peculiarities of the accounting of foreign currency sale and purchase through transfer and in cash. The article also pays special attention to the ways of starting and managing of currency accounts in licensed banks and to the foreign exchange offices organization and functioning in the Republic of Moldova.

Key words: *accounting, foreign currency, foreign exchange offices, licensed banks*

INTRODUCTION

In accordance with the conditions of the point 115 Regulation on the terms and conditions of foreign exchange transactions from January 28, 2010 (Regulation on the terms and conditions of foreign exchange transactions, 2010) [4] purchase operations of foreign currency against national currency by legal resident entities is carried out by licensed banks and is based on documents that are established during the transaction, the amount and other terms agreed by the parties.

The purpose of this research is to highlight the peculiarities sale and purchase of foreign currency by authorized banks in Moldova.

MATERIALS AND METHODS

Research has been conducted using a monographic study. The laws pertaining to the regulation and conduct of foreign exchange operations in Moldova are regulated by the legislation drafted by the National Bank of Moldova, including the Foreign Exchange Regulation Act (Law on Foreign Exchange Regulation, 2008) [3], on the terms and conditions of foreign exchange operations (Regulation on the terms and conditions of

foreign exchange transactions, 2010) [4], and the regulation on units exchange (Regulation on Foreign Exchange Entities, 2009) [5]. The study in question evaluated accounting for the sale and purchase of foreign currency in cash and non-cash. Also special attention was paid to the ways of opening and managing forex accounts with licensed banks, and the organization and functioning of the foreign exchange offices of the Republic of Moldova.

RESULTS AND DISCUSSIONS

For transactions in foreign currency, commercial banks opened the accounts of "Nostro" and "Loro". The "Nostro" account is an open bank account in another bank and is registered in a foreign currency as account **1032 „Nostro’ account in banks.”** The "Loro" account is another open bank account that takes on the name of **„2032 ,Loro’ accounts in banks.”** The collection of funds in the foreign currency account is debited to **1032 „Nostro’ account”** and it credits the **2224 „the current accounts of legal entities,”** and their passage and decrease is debited in the account **2224 „The current accounts of legal entities”** and credit the **1032 „Nostro account.”**

Commercial banks perform transactions of the currency market by buying a certain amount of foreign currency necessary for their work with clients, accumulating income from speculative transactions of the purchase and sale of currencies, and hedging foreign exchange fluctuation.

A difference exists between the buying and selling of currency. This difference is known as the margin, and it allows banks to profit. The main rule in determining the course of sale is that banks buy a certain currency at a rate lower and sell the same currency at a rate higher, at different times, gained from price difference gain. This activity is called currency speculation (Grigoriță, 2005) [2].

Foreign exchange transactions are conducted between commercial banks and between banks and their customers. There are two types of transactions in the FOREX market: the short and long term. Spot transactions are the sale and purchase of currency ends on the same day (or within 48 hours maximum); so that the transaction coincides with the formation of the exchange rate of the day. Term operations (forward) are those in which the time of the transaction is separated at the time of its execution, and the delivery and payment currency is carried out over several months at a time agreed between the parties. The characteristic of this transaction is at the time the transaction occurs in course of the day, which is different from the exchange rate at the date of transaction. Of course the difference between the two time points results in advantages or disadvantages for trade partners (Grigoriță, 2005) [2].

Commercial banks can perform sale and purchase of foreign currency in two ways, by bank transfer (non-cash) or cash.

Bank transfer foreign exchange transactions are conducted at the request of customers or by direct negotiations. Foreign exchange transactions are a sum in a certain currency against payment in another currency at a rate set at the time and date of the transaction.

Non-cash foreign exchange transactions for clients are currently provided by all banks in the Republic of Moldova, the conditions offered are virtually identical, but (depending on the capabilities and resources) may vary

during the transaction (usually, most banks do not receive commission, but the exchange difference operations purchase - sale).

In order to maintain currency stability and prevent speculative transfer of capital from the Republic of Moldova, the National Bank of Moldova sets restrictions on foreign currency transactions. According to the regulation on foreign exchange in the territory of the Republic of Moldova, the following restrictions are as follows:

-Legal resident entities are entitled to purchase foreign currency only when this is necessary prerequisites payments regulation.

-Individuals can carry out exchange operations at the rate set by the bank and by the terms and conditions established by the internal rules of the bank. Typically, individuals engage foreign exchange through exchange offices (Regulation on the terms and conditions of foreign exchange transactions, 2010) [4].

According to the regulation rules, legal resident entities are required to use foreign currency purchased within seven days. If this currency is not used as intended by the deadline, businesses are required to forward to the sale against MDL authorized banks (Regulation on the terms and conditions of foreign exchange transactions, 2010) [4].

Banks set themselves the buying and selling rates of foreign currency transactions with businesses. At the same time, these rates may be set unique for all customers, as well as individually for each client.

The accounts in foreign currency are kept in the same synthetic accounts as the accounts in national currency. Analytical evidence is organized under personal accounts by the type of currency and the account holders. The personal account numbering is indicated by currency code. International or internal codes may be used (eg international code is USD 843).

Transactions in foreign currency are reflected in the official record set by BNM. This occurs as the change in the revaluation of the account balances are carried out. Revaluation is reflected in account **4655 "Profit / loss from revaluation of foreign currency."**

Following the transactions of sale of foreign

currency, the bank can earn a profit or lose it and this is determined by the difference between the official BNM and authorized by the bank. The exchange difference is reflected in account 4654 "Profit/loss from the sale of foreign currency." The account's credit records the revenue and losses.

The accounting entry for buying foreign currency by the client is:

- Debit account 2224 „Current accounts of legal entities" (account in national currency),
- Credit account 2224 „Current accounts of legal entities" (account in foreign currency),
- Debit/Credit account 4654 „Profit/loss from the sale of foreign currency" – the difference between the official and the authorized rates.

For example, the client bought USD 1,000 dollars. The official rate is Lei 10.2 per one dollar, and the authorized selling rate is Lei 10.25 per one dollar.

The transaction of sale of foreign currency is reflected in the accounts as follows:

- Debit account 2224 "Current accounts of legal entities" - Lei 10,250,
- Credit account 2224 "Current accounts of legal entities" - \$ 1,000 - Lei 10,200,
- Credit account 4654 „Profit/loss from the sale of foreign currency" – Lei 50.

The accounting entry of the sale of foreign currency by the client is:

- Debit the account 2224 „Current accounts of legal entities" (account in foreign currency),
- Credit the account 2224 „Current accounts of legal entities" (account in national currency),
- Debit/Credit the account 4654 „Profit/loss from the sale of foreign currency" – the difference between the official and the authorized rates.

For example, the client sold USD 1,000. The official rate is Lei 10.2 per one USD, and the authorized rate of buying is Lei 10.10 per USD.

The purchase of foreign currency by the bank is reflected in the accounts as follows:

- Debit account 2224 „Current accounts of legal entities" – \$ 1,000 - Lei 10,200,
- Credit account 2224 „Current accounts of legal entities" – Lei 10,100,

- Credit account 4654 „Gain/loss from the sale of foreign currency"– Lei 100,

And if the purchasing rate would be Lei 10.40 for one USD, then:

- Debit account 2224 „Current accounts of legal entities" – \$ 1,000 - Lei 10,200,
- Debit account 4654 „Profit/loss from the slae of foreign currency"– Lei 200,
- Credit account 2224 „Current accounts of legal entities" – Lei 10,400.

Authorized banks that open the currency exchange are required to apply for registration at each National Bank (Regulation on Foreign Exchange Entities, 2009) [5].

Legal entities may purchase foreign currency only if it is necessary to carry out foreign payments and the reimbursement foreign currency loans granted by commercial banks of Moldova.

The exchange office may conduct activities only in accordance with the authorization granted by the National Bank of Moldova.

Exchange offices are entitled to perform the following operations:

- Foreign currency purchasing transactions in cash currency and traveler's checks for individuals at their own expense;
- Foreign currency sale transactions in cash and traveler's checks for individuals at their own expense;
- Cash foreign exchange operations in another currency;
- Exchange transactions by cards;

Purchasing transactions of foreign currency from individuals are made at the exchange rate of purchase for individuals on the day that they perform the transactions. Foreign currency sale transactions are carried out in the course of individuals selling to individuals on the day of performing the transactions.

The authorized bank fixes or stablizes the exchange rate of the purchase and sale of foreign currency for individuals. At the same time, the difference between the purchase rate and selling rate is the bank fee. The exchange office may charge a fee for transactions set by the management of the bank through a provision. The list of tariffs and rates established are accessible to customers.

The purchasing and selling rate is fixed daily

by an order signed by the head of the bank and authenticated by the stamp of the bank. Every day except for weekends, until 12 o'clock in the morning the commercial bank is obliged to inform the National Bank of Moldova on their rates. The authorized banks may have the same rate of buying and selling for all exchange offices or a different rate for each branch, depending on the supply and demand of each branch.

The exchange office has no right to change the rates during the work day after the purchase and sale rate is set.

The movement of cash in the currency exchange house is reflected in account **1003 "cash in the currency exchange house in the bank."** In the debit account, it records the collection of funds in foreign currency, and credit - their value decreases. The supply of the foreign exchange house occurs in the transactions office. In this case, it prepares accounting records.

- Debit account **1003 „Cash in foreign exchange point of the licensed bank”**,
- Credit account **1001 „Cash in hand”**.

In order to record cash in foreign currency, the 1003 account opens analytical accounts for each type of currency.

For currency exchange bank sets a special rate for the foreign currency exchange. Thus, when buying foreign currency by the bank the accounting entry is:

- Debit account **1003 „Cash in foreign exchange point of the licensed bank”** (foreign currency),
- Credit account **1003 „Cash in foreign exchange point of the licensed bank”** (national currency)
- Debit/credit **4654 „Profit/loss from the sale of foreign currency”** – the difference between the authorized rate and the official one.

For the sale of foreign currency by the bank, the accounting entry is drawn inversely:

- Credit account **1003 „Cash in foreign exchange point of the licensed bank”** (national currency),
- Debit account **1003 „Cash in foreign exchange point of the licensed bank”** (foreign currency),

- Debit/credit **4654 „Profit/loss from the sale of foreign currency”** – the difference between the authorized rate and the official one.

The commission fee of the sale of foreign currency for individuals is 0.01%, and is reflected by the record book:

- Debit account **1003 „Cash in foreign exchange point of the licensed bank”**,
- Credit account **4674 „Bank commissions for the transactions of the sale / purchase of foreign currency.”**

In the Republic of Moldova, the transactions of collections and payments made with other countries are aimed at cash flows from foreign economic relations.

CONCLUSIONS

The National Bank of Moldova is the main financial institution that has the right to issue normative acts regulating banking operations and transactions in foreign currency, and to issue and revoke licenses for determining positional restrictions for foreign commercial banks.

Following the purchase and sale transactions of foreign currency commercial, banks can obtain both a certain profit from the commissions for selling the currency or from the difference between the rate of foreign currency purchase and sale as well as loss of the difference between the official National Bank of Moldova rate and the authorized rate of the bank.

The accounts in foreign currency after performing selling and buying transactions of foreign currency are held to show the same synthetic accounts as well as accounts in national currency, **2224 "Current accounts of legal entities."**

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