PARTICULARITIES OF ACCOUNTING FOR CLIENT CREDITING OPERATIONS

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ABSTRACT: *Credit operations by credit institutions for customers generate the bulk of their revenue through interest and commissions. At the same time, these operations also involve high financial risks, with credit risk being the most important financial risk faced by credit institutions. Accounting for loans to customers ensures that credit operations are reflected by credit categories according to their purpose and destination. In the paper are presented the accounts of Class 2 Operations with Clients with which the clients' credit operations are reflected by categories and types of credits depending on the purpose of the assignment and their destination. Two types of credits, discount credit and a personal loan granted in CHF are presented, with their particulars being reflected in the accounting of the grant, the reimbursement, the collection of the interest and the related commissions.*

KEY WORDS: *credit institutions, loans, current accounts, discount, lump-sum, factoring, treasury, interest, attached receivables, clientele, credit risk*

JEL CLASSIFICATION: *G29; M41.*

1. INTRODUCTION

In accordance with the legal provisions by credit institutions, it means: Romanian legal banks, Romanian branches of foreign banks and credit cooperatives.

The system of credit institutions in our country currently has the following structure: 25 banks of Romanian legal persons, 2 savings and lending banks in the housing sector, the Central Bank Credit Co-operative with 41 credit co-operatives, 10 branches of credit institutions in other Member States of the European Union. Banks have almost entirely foreign capital, with two being state-owned and one with majority private domestic capital.

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The chart of accounts of credit institutions shall take into account the general framework of the chart of accounts for the economy and the specific nature of the activity in this field.

The accounts are symbolic based on the decimal system and are grouped as follows:

- by classes - corresponds to the first digit in the account symbol;
- by groups - correspond to the first two digits of the account symbol;
- on first grade synthetic accounts - correspond to the first figures in the account symbol;
- on second-tier synthetic accounts - correspond to the first four digits of the account symbol;
- on grade three synthetic accounts - correspond to the five digits of the account symbol.

As a rule, with some exceptions, first-grade synthetic accounts are not functional, being developed in second-grade synthetic accounts, and some of these are developed in third grade synthetic accounts.

The chart of accounts for banking companies comprises the following classes of accounts:

Class 1 "Treasury operations and interbank operations";
Class 2 "Client operations";
Class 3 "Operations with different titles and operations";
Class 4 "Fixed Assets";
Class 5 "Equity, Assimilation and Provisions";
Class 6 "Expenses";
Class 7 "Revenue";
Class 9 "Off-balance sheet operations".

Of the client lending operations, which are the most important placements made by credit institutions, they earn important interest and commission income.

The credit plan for credit institutions provides for the classification of credits into the following categories:

- commercial receivables;
- treasury credits;
- consumer loans and installment sales;
- loans to finance foreign trade operations;
- appropriations for the financing of stocks and equipment;
- loans for real estate investments;
- other credits to customers.

Accounting for loans to customers is carried out using Class 2 Accounts with customers as follows:

Accounts 2511 "Current Accounts" shall record the credits granted in the form of an advance on the account or credit line, reflected in the debit balance of the account.

In order to benefit from this credit, an agreement between the credit institution and the client is required which authorizes the possibility of temporary establishment of debit balance in the current account of the client, its maximum value, the date until which the interest charged by the bank is authorized. Within the limits of this agreement, the client may use amounts on his account, as necessary, over his own funds.

The accounts in Group 20 "Loans granted to customers", which comprise accounts receivable by type of credit, according to the purpose or purpose for which they were granted.

2. PRESENTATION OF THE ACCOUNTS BY WHICH CREDIT OPERATIONS ARE REFLECTED

Group 20 "Loans to customers include the following accounts:

201 "Trade receivables" which is detailed in the following second and third grade synthetic accounts as follows:

2011 "Trade receivables"
20111 "Scont"
20112 "Factoring with Appeal"
20113 "Forgetting"
20114 "Factoring without recourse"
20119 "Other trade receivables
2017 "Amounts attached and amortized amounts"
20171 "Receivables attached"
20172 "Amortised Amounts"

A commercial counter is the operation whereby the credit institution makes available to the claim holder the value of the effect, less agio (the discount fee and related commissions), in exchange for a trade effect (bill of exchange, promissory note), without waiting for the effect to mature, and the credit institution has the right of appeal against the beneficiary of the funds.

Factoring is the operation by which the customer, referred to as "adherent", transfers the property of his credit claims to the credit institution, called the "factor", which has the obligation under the concluded contract to secure the collection of the debtor's claims, assuming the risk of non-payment.

The credit institution shall, on the basis of the documents received, pay the nominal amount of the receivables, less agio, immediately upon maturity or at the contractual maturity.

Account 202 "Treasury Credits" provides the bookkeeping of loans granted to clients in general in the short term, intended to ensure the clients' treasury needs, legal and physical persons, which complement or replace other special financing types. Treasury credits include: use from open-ended loans, loans based on global operating lines, reimbursement differences related to the use of cards and other treasury credits.

Account 202 "Treasury Credits" is developed in second-grade synthetic accounts to reflect lending and borrowing as follows:

2021 "Treasury Credits"
2027 "Amounts attached and amounts written off"
20271 "Receivables attached"
20272 "Amortised Amounts"

In turn, the 2021 "Treasury Credits" account is developed into third-grade synthetic accounts by type of credit as follows:

20211 “Uses from Open Credit Openings"

20212 “Global Credit for Operation"

20213 - "Reimbursement related to the use of cards"

20219 - "Other Treasury Credits"

Account 203 "Consumer Loans and Sales in Rates" provides the bookkeeping of credits to customers as follows:

- consumer loans are loans granted to individuals in order to satisfy the applicant's and family's personal needs as well as to purchase goods other than real estate investments;
- sales in installments are loans to legal persons intended to finance the sale of goods in installments and are repaid by periodic payments, most often monthly or quarterly.

Account 203 "Consumer Loans and Rates" is developed into second-tier synthetic accounts to reflect lending and borrowing as follows:

2031 "Consumer credits"

2032 "Sales in installments"

2037 "Amounts owed and amortized amounts"

20371 "Receivables attached"

20372 Amortised Amounts

In turn, the 2031 "Consumer Loans" account is developed into third-grade synthetic accounts as follows:

20311 "Consumer Loans for Personal Needs"

20312 "Consumer credit for the purchase of goods"

Account 204 "Loans to finance foreign trade operations" provide evidence of credits for imports (loans consecutive opening of letters of credit, foreign currency advances granted to importers, other loans to customers for imports) and of export credits. Account 204 "Loans to finance foreign trade operations" is developed second-degree synthetic accounts to reflect receivables from loans and interest as follows:

2041 "Import Credits"

2042 "Export Credits"

2047 "Amounts owed and amortized amounts"

20471 "Receivables attached"

20472 "Amortised Amounts"

Account 205 "Loans for stock and equipment financing" provides the bookkeeping of credits to customers as follows:

- credits for stock financing are loans to clients for financing cyclical operations (campaign credits, grain storage, agricultural, industrial, hotel, oil etc.);
- credit for equipment is usually the medium to long-term loan to finance customer productive investments (purchases of materials, purchases, construction or equipment for professional tangible fixed assets, excluding real estate investments, intangible assets acquisitions etc.) This category also includes loans to farmers for productive investment, including state-subsidized loans.

Account 205 "Credits for stock and equipment financing" is developed in second-grade synthetic accounts to reflect receivables from loans and interests as follows:

2051 "Appropriations for the financing of stocks"
2052 "Appropriations for equipment"
2057 "Amounts attached and amounts written off"
20571 "Receivables attached"
20572 "Amortised Amounts"

Account 206 "Credits for real estate investments", keeps track of the loans granted to the clients, intended for real estate investments having as object:

- the acquisition or preservation of property rights over a land or a building, made or to be accomplished;
- arrangement, rehabilitation, modernization, consolidation or extension of a building;
- the realization of a land.

Account 206 "Credits for real estate investments" is developed in second-grade synthetic accounts to reflect receivables from loans and interests as follows:

2061 "Credits for real estate investments";
2067 "Amounts attached and amounts written off"
20671 "Receivables attached"
20672 "Amortisation Amounts"

Also, account 2061 "Credits for real estate investments" is developed in third-grade synthetic accounts, by type of credit, as follows:

20611 "Mortgages";
20619 "Other loans for real estate investments";

Account 209 "Other Loans to Customers" keeps track of credits, usually on medium and long term, which can not be classified into previous credit categories. Also, this account is developed in second grade synthetic accounts:

2091 "Other loans to customers"
2097 "Amounts owed and amortized amounts"
20971 "Receivables attached"
20972 Amortised Amounts

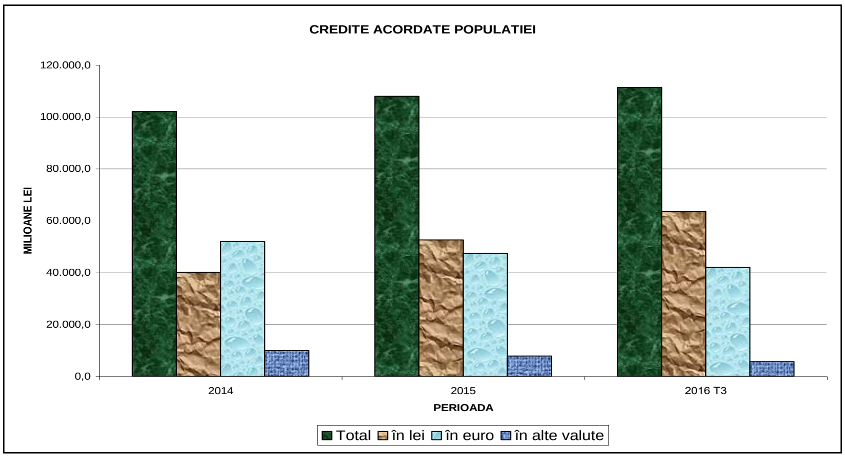
Table 1. Loans to households

Period	Total	depending on the currency		
		lei	euro	other currencies
2014	102.117,1	40.154,4	51.935,5	10.027,2
2015	107.952,8	52.621,9	47.441,7	7.889,2
2016 T3	113.036,5	66.075,1	41.334,9	5.626,5

Source: National Bank of Romania

The accounts presented are asset-to-debit accounts showing the loans granted and repayment in credit, passing over to outstanding or doubtful receivables for non-reimbursable receivables or covering loan losses using amounts from the general credit risk reserve.

The debit of the attachment accounts includes interest on the creditor, calculated and matured, and interest earned on interest receivable, overdue or doubtful debts, and the coverage of interest losses with amounts used in the general credit risk reserve.



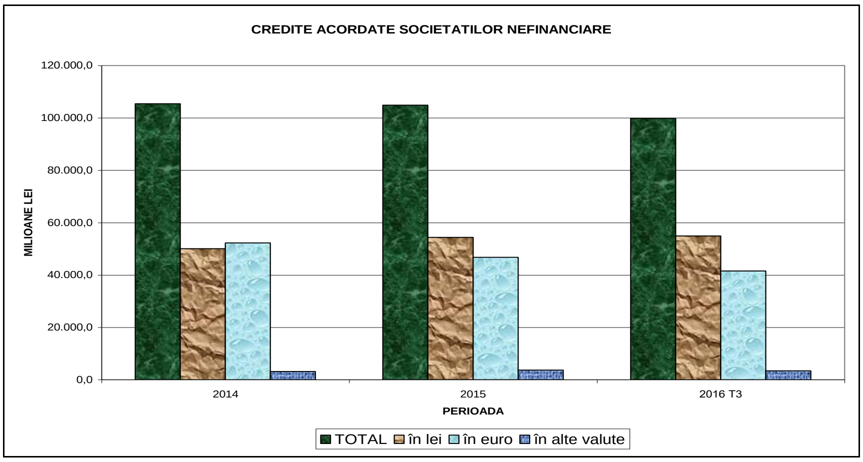
Source: National Bank of Romania

Figure 1. Loans to households

Table 2. Loans to non-financial corporations

	Total	lei	euro	other currencies
2014	105468.3	50086.0	52261.5	3120.8
2015	104832.4	54344.9	46776.4	3711.1
2016 T3	99850.1	54905.8	41543.3	3401.0

Source: National Bank of Romania



Source: National Bank of Romania

Figure 2. Loans to non-financial corporations

4. CASE STUDY

A commercial bank accounts for a commercial effect (promissory note) from a legal person client under the following conditions: nominal value (V) - 10000 lei; the time from settlement to maturity (T) -90 days; the percentage of the interest or the discount fee (P) - 8.5%, commissions - 15 lei.

$$S = \frac{V \times T \times P}{360 \times 100}$$

- recording the nominal value of the expected trade effect:

20111 "Scont"	=	2511 "Current accounts"	10000 lei

- the recording of interest on the settlement operations and the commissions:

2511 "Current accounts"	=	%	227.5 lei
		20172 "Amortised amounts"	212.5 lei
		7029 "Commissions"	15 lei

- the monthly distribution of interest income on the settlement transactions:

20171 "Attached claims"	=	70211 "Interest on operations discount, lump sum, and other claims commercial "	70.83 lei

and

20172 "Amortized amounts”	=	20171 “Attached claims"	70.83 lei

- cashing-in of the expected trade effects (depending on the methods of collection):

1111 "Current account at the National Bank of Romania"	=	20111 "Sount	10000 lei
903 "Commitments in favor	=	999 "Counterparty "	

Interest on loans in RON and foreign currency is calculated according to the bank's fixed margin, established by the credit agreement and the evolution of some indices, as follows: ROBOR for loans in lei; EURIBOR for euro loans and LIBOR for CHF.ROBOR (Romanian Interbank Offer Rate) is the average interest rate on ROL loans granted on the interbank market and the increase of this indicator will lead to an advance of the rates in the case of ROL loans.

ROBOR is a benchmark for interest rates on ROL loans, banks using ROBOR at 3 months or 6 months to calculate interest rates, adding a credit risk margins. ROBOR is based on the information provided by the top 10 interbank market interest banks. EURIBOR is given by the European interbank market and LIBOR by the London Interbank Offered Rate for the other currencies.

A commercial bank has in its portfolio a credit for personal needs in CHF granted to a client-individual under the following conditions:

- date: July 2008
- initial credit amount: CHF -51,000
- long: - 20 years
- initial interest rate: - 5.5%
- initial DAE (annual percentage rate of charge): - 7.85%
- current credit balance-CHF 13049.43 (advance repayments have been made)

- current interest rate: - 5.596%
- DAE: - 8.02%

Foreign currency lending and foreign currency repayments do not involve additional currency entries or exits, nor any entries in the adjustment accounts.

However, if the negotiation is done in foreign currency and the customer is offered the equivalent in lei with which he will buy goods from the domestic market, but will have to repay in foreign currency, the following records will be made:

- granting credit:

20311 -Prices for personal needs = 3721 Exchange position 51000 CHF

- analytical client and currency - analytical currency
- making available the equivalent in lei:

3722 Controlling = 2511 Current rates 114750 lei

- the exchange position

Irrespective of funding, interest or interest receivables affect its own foreign currency assets and are therefore in line with currency-adjusting accounts such as:

For the month underway, the client performs the following payments, in accordance with the reimbursement schedule, by depositing cash:

- Capital payment - CHF 72.49; interest payment - CHF 60.86; administration fee - CHF 19.57.
- repayment of the loan;

101 House = 20311 Consumer credit for personal needs 72.49 CHF

- analytical client and analytical currency client and currency
- recording interest and commissions;

30371 Attached claims = 3721 Exchange position 60.86 CHF

and

3722 Count position position = %
exchange rate
70214 Interest on consumer loans and sales in installments 246.48 lei
7029 Commissions 79.26 lei

- the collection of interest;

101 House = 20371 Attached claims 60.86 CHF

- cash payment for commissions:

101 House = 3721 Exchange position 19.57 CHF
analytical client and currency

Receivables from credits granted and attached, in foreign currency, are revalued at the end of each month and the differences are recorded in correspondence with the adjustment accounts.

5. CONCLUSIONS

Credit operations by credit institutions for customers generate the bulk of their revenue through interest and commissions. At the same time, these operations also involve high financial risks, with credit risk being the most important financial risk faced by credit institutions.

Accounting for loans to customers ensures that credit operations are reflected by credit categories according to their purpose and destination.

It is noted that some grade one synthetic accounts reflect operations on non-homogeneous credit categories: consumer and installment credit, stock finance and equipment loans.

Although developments in second or third grade synthetic accounts provide delimitation by type of credit, we believe that this structure should be provided with first-rate synthetic accounts, even if their number was increased.

Synthetic first-tier accounts are developed in second- and third-grade synthetic accounts by type of credit, and for reflecting interest as attached receivables.

In the case study, credit transfer operations are presented by assignment of receivables, the discount being a form of lending operative advantageous for both the client and the credit institutions. Thus, the client converts cash receivables without waiting for the maturity, and the bank collects interest and commissions, without the need to prepare a loan file for the complexity of other loans.

It also presents the book keeping of foreign currency lending operations, namely a Swiss franc credit.

We note that banks in Romania encouraged customers to access such loans by 2009, which at first sight appeared to be very cost-attractive, mainly related interests

Swiss franc loans seemed the most attractive due to low interest rates and the exchange rate risk was considered low due to a history that showed a stable evolution of the Swiss leu exchange rate. Thus, in the period before 2009, the Swiss franc remained at a relatively constant level against the RON of about 2.2 lei.

Since 2009, a significant appreciation has been reached, reaching a record level, a Swiss franc worth more than 4 lei, with catastrophic influences on customers who have accessed credits in this currency.

In 2016, a law was passed in Parliament on the conversion of Swiss franc credits into lei at the historical rate from the date of granting.

This law has not strengthened because it was declared unconstitutional by the Constitutional Court of Romania.

We believe that approving a law that provides for conversion to an average course between the current course and the historical course would have been much more equitable, ensuring risk-taking between clients and credit institutions.

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