

E.I.D PARRY LIMITED

TREASURY DEPARTMENT – LC RECEIVABLE PROCESS

Version:	2
Created on:	DEC-21
Reviewed on:	APR-22
No of Pages:	9
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1. Meaning of LC

Letter of Credit (or Documentary Credit) is an undertaking issued by a bank for the account of the buyer or for its own account, to pay the seller against the value of the draft and/or other documents provided that the terms and conditions of the credit are complied with.

LC is usually subject to the Uniform Customs and Practice for Documentary Credits, International Chamber of Commerce Publication No. 600 (UCP 600).

2. Objectives & Scope

Easy understanding of The Process of LC from its issuance to Receipts in a step by step process.

3. Abbreviations and Definitions

LC Applicant

LC Applicant is normally the buyer (customer) and the party who initiates the request to the Issuing Bank to issue an LC on its behalf.

LC Beneficiary

LC Beneficiary is normally the seller (Vendor) and the party who will receive payment under the LC.

Issuing Bank / or LC opening bank

An Issuing Bank (or LC opening bank) is the bank that issues the LC in favour of a seller (Vendor) at the request of the Buyer -an LC applicant.

Advising Bank / notifying bank

An Advising Bank (or Notifying bank) is the bank that advises the LC beneficiary that there is an LC received in his favour.

Confirming Bank

A Confirming Bank (normally also the Advising Bank) is the bank that adds its own undertaking to pay the LC beneficiary if all terms and conditions of the credit are complied with. Such undertaking is in addition to that given by the Issuing Bank at the request of the Issuing Bank.

Negotiating Bank

A Negotiating Bank is the bank that examines the drafts and/or documents presented by the LC beneficiary and gives values to such drafts and/or documents.

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Reimbursing Bank

A Reimbursing Bank is the paying agent appointed by the Issuing Bank to honour claims submitted by the Negotiating bank.

SWIFT

Society for Worldwide Interbank Financial Telecommunication (SWIFT) provides a network that enables financial institutions worldwide to send and receive information about financial transactions in a secure, standardized and reliable environment.

SFMS

Structured Financial Messaging System (SFMS) is a secure messaging standard developed nationwide to serve as a platform for intra-bank and inter-bank applications.

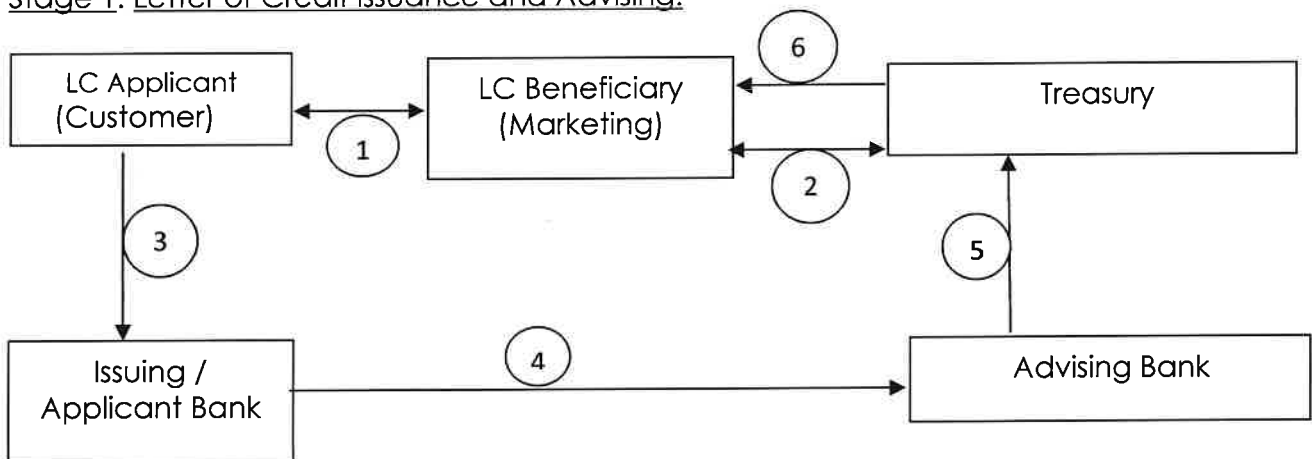
EEFC ACCOUNT

Exchange earners' foreign currency account (EEFC) is an account maintained in foreign currency with a Bank for payment and collection in foreign currency.

4. Detailed Process Flow

a. LC without Confirmation

Stage 1: Letter of Credit Issuance and Advising:



Step 1: Buyer and Seller conclude the sales contract and agree to use an LC as the method of payment.

Step 2: Marketing team approaches Treasury team for confirming the conditions and clauses LC draft. Marketing confirms the LC Draft to Customer for Issuance.

Step 3: Customer approaches the Issuing Bank to issue an LC on his behalf in favour of the seller as per the conditions and clauses approved by seller.

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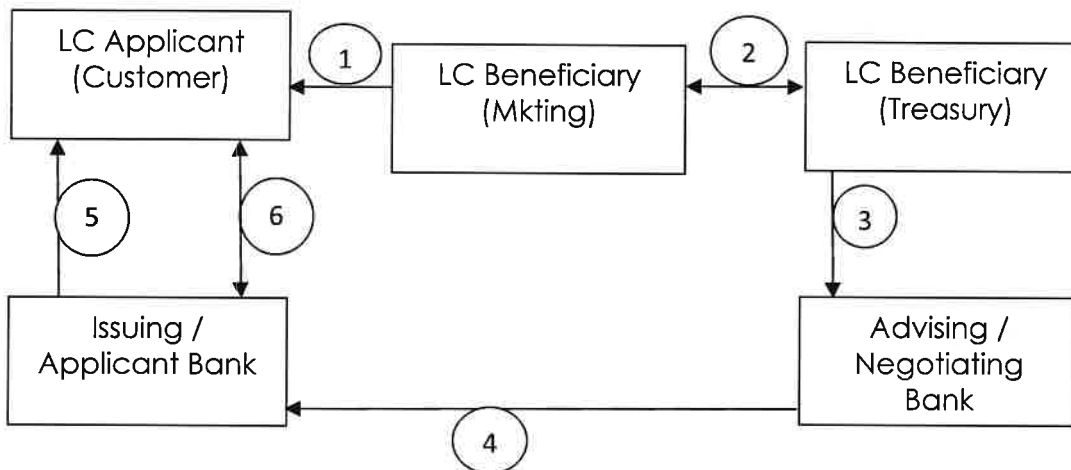
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Step 4: Issuing Bank issues the LC and requests the advising bank to advise the Letter of credit to the LC beneficiary.

Step 5: Advising Bank authenticates the LC and sends the LC to the LC beneficiary.

Step 6: Treasury team checks the LC and after confirming that the LC Conditions and Clauses are as per the agreed terms, the LC details will be recorded in the MIS and send the original LC to Marketing Team.

Stage 2: Presentation of Documents:



Step 1: Seller (Sales) prepares and dispatches the goods to the buyer as per LC Conditions.

Step 2: Seller (Marketing) presents the basic documents (Invoice, Transport Document, Packing list, Test Certificate & Certificate of Origin) to the Treasury. Treasury Team checks the LC conditions with the help of the Checklist prepared and reconcile the documents in line with the LC conditions and clauses. In case of deviation, Clarification will be received from the Marketing team. If possible, revised documents will be received from Marketing Team.

Step 3: Treasury team presents the documents to Negotiating Bank along with Bill of Exchange and covering letter mentioning the details of Bank accounts (Rupee account for INR Bills and EEFC account for USD Bills) to which the fund has to be received. Negotiating bank checks the document against the LC terms and conditions and seeks instructions from Treasury on documentary discrepancies, if any.

Step 4: Negotiating Bank forward the documents to the LC Issued Bank along with their cover note mentioning the details of Bank accounts to which the fund has to be received.

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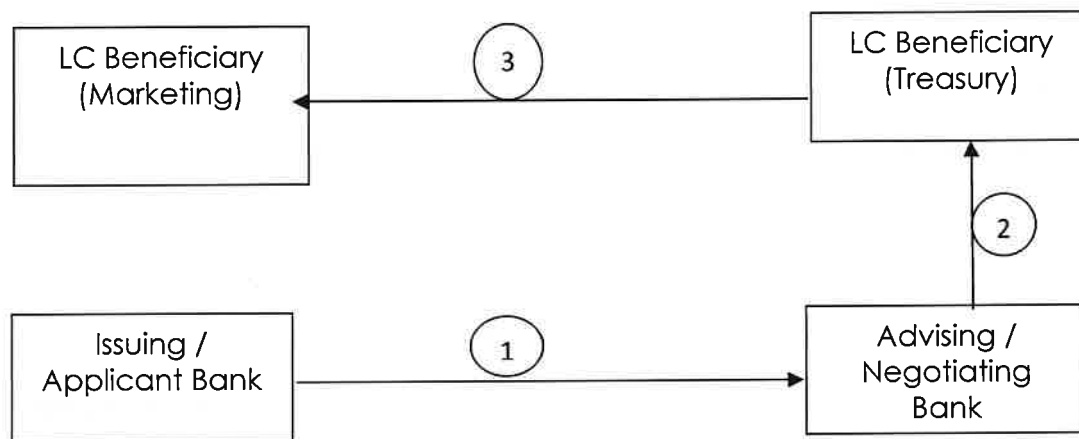
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Step 5: LC Issued Bank sends the document arrival notice to the buyer for Acceptance / payment.

Step 6: Once Acceptance is received from the buyer (Customer), LC Issued Bank releases the Original documents to the buyer.

Stage 3: Receipt of Bill Amount:



Step 1: Applicant Bank Deduct the amount from Buyer's Account (Customer) on the due date and send it to the Negotiating Bank as per the negotiating bank cover note and sends a (SWIFT/SFMS) message to the Negotiating Bank about the payment details.

Step 2: On receipt of (SWIFT/SFMS) message and amount, the negotiating bank transfers the Bill amount to Beneficiary Bank account as per the covering letter (Rupee account for INR Bills and EEFC account for USD Bills).

Step 3: On receipt of Amount and SWIFT from the Negotiating Bank Treasury inform the details to respective Marketing/Accountant to account the Receipt.

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6. Documents Involved

LC Opening

1. Duly Signed PO / Sales Contract & PI to check the Details.
2. Mutually Agreed LC Draft.

Documents to be submitted to bank for Documents Acceptance

1. Original Bill of Exchange
2. Original Invoice
3. Original Transport Document
4. Original Packing List
5. Other Documents as per the LC Conditions

7. Key terms to be followed

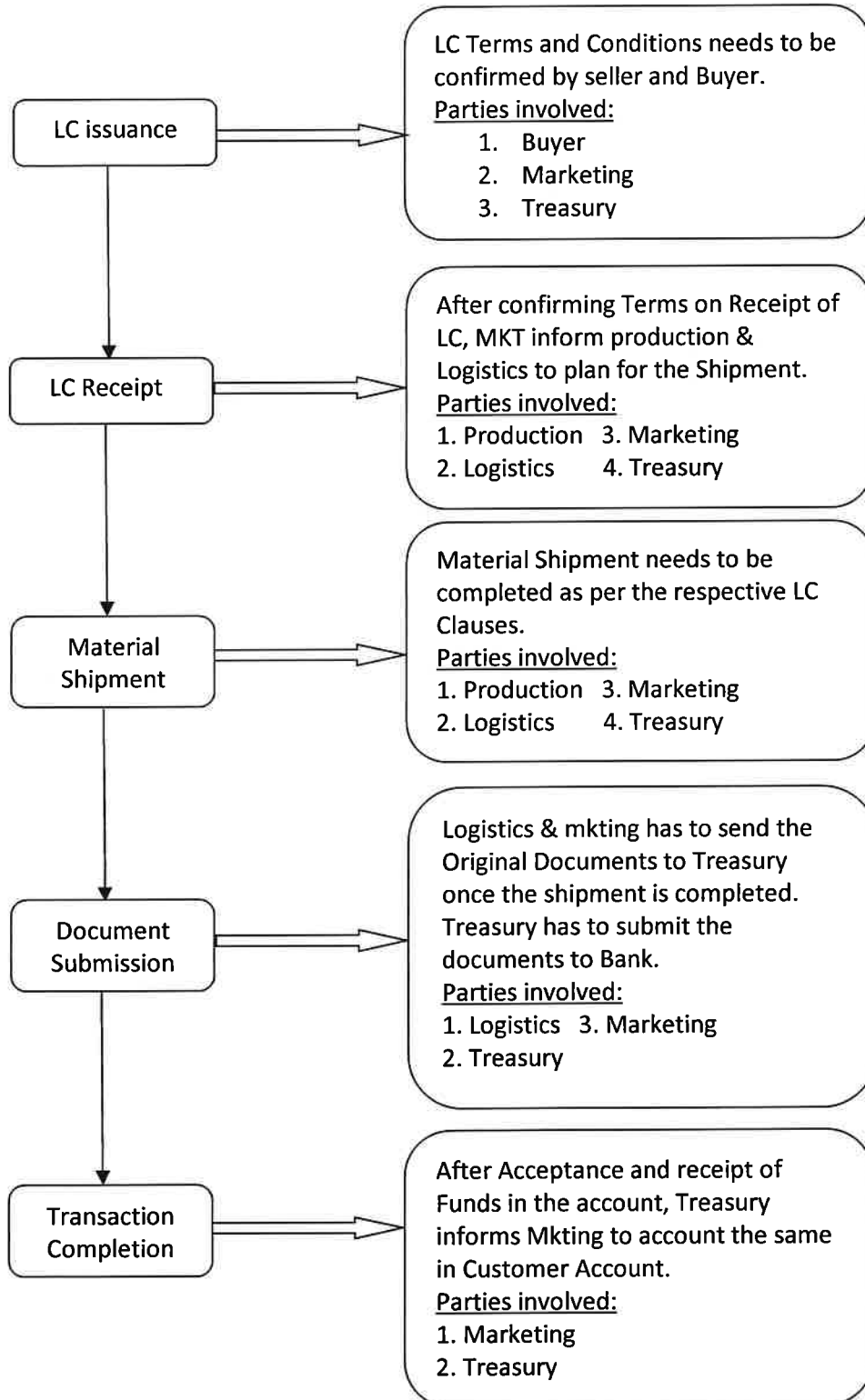
1. Last Date of Shipment : Shipment should be completed before the date.
2. Date of Expiry : Last date before that the LC Transaction need to be completed (Except payment).
3. Currency and Amount : Value of Total Shipment against the LC should be within this value.
4. Credit Available with : Negotiation of documents is restricted with that Bank.
5. Documents Required : All documents mentioned in the class need to be produced while sending the document for Negotiation.
6. Additional Conditions : All conditions mentioned in the class need to be followed.
7. Period of Presentation : Documents should be submitted to Bank on or before shipment date plus the No. of days mentioned in this clause.
8. Charges : LC Opening Charges and Amendment Charges are to the account of Buyer. LC Advising, Discrepancy, Reimbursement Charges are to the account of Seller.

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8. Process Flow



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9. Accounting Entries

Submission of Document to Bank

LC Receivable A/c Dr	XXXX
Customer A/c (Trade Receivable) Cr	XXXX

Collection Receipt:

Bank Account A/c Dr	XXXX
Bank Charges A/c Dr	XXXX
LC Receivable A/c Cr	XXXX

10. Frequent Discrepancies (Deviation) and Precautions

1. Late Shipment: Always complete the shipment before the last date of shipment.
2. Late Presentation: Document needs to be sent to Treasury Department as and when the shipment completes so that the documents can be submitted to bank without this discrepancy.
3. Manual Correction: Avoid Manual writing in printed documents or Overwriting on written documents.

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11. Annexures

CHECKLIST

Customer LC or Collection - Documents Checklist before Bank Submission			
Supply of	to	against LC	dt
	amounting to \$		vide Inv Nos
S No	Description	Checklist	Verification
1	Applicant Name and Address in Inv, Shipping Docpument & PL	Applicant:	✓
2	Applicant Bank and Address in Inv, Shipping Docpument & PL	Applicant Bank:	✓
3	Beneficiary Name and Address in Inv, Shipping Docpument & PL	Beneficiary:	✓
4	Beneficiary Bank and Address in BoE and Covering letter	Beneficiary Bank: HDFC Bank, R.K.Salai, Chennai-600004	✓
5	LC No in all Document	299ILU4210420503 dt 11.02.2021	✓
6	Shipment, Expiry Date	30.12.2021 / 21.01.2022 Actual Shipment - 25.12.2021	✓
7	INCO Terms	CFR Jebeli Port (2020)	✓
8	HS Code		✓
9	LC Currency & Amount	USD 546,000 - Bill Value \$ 245.550	✓
10	Payment Terms	90 Days from BL	✓
11	Presentation period	21 Days from the date of Shipment	✓
12	Place of Loading	Any port in India	✓
13	Place of Delivery	Jebel Ali Port	✓
14	Description of Goods in Inv & PL as per LC		✓
15	Supplier or Buyer Quote (PO/PI) Match with Invoice		✓
16	Confirmation Instructions	Without	✓
17	Charges	All charges outside UAE is to the account of us	✓
18	Documents Required	(Original+Copies)	
a	Invoice	1+3	✓
b	Transport Document	03+03	✓
c	COO issued by CoC	2	✓
d	PL	2	✓
e	Insurance Intimation	1	
f	Vessel Certificate	1	
g	BoE as per LC	2+0	✓
Remarks:			
1 Shipment. LC Value pending for \$ 300,450			
Possible Discrepancies can be arised by the customer bank if noted:			
1. Carrier / Agent not Identifiable			
2. ISM Code not mentioned in Vessel Seaworthiness Certificate			

Shipment date 25-Dec-21
 Last date for Presentation 08-Jan-22
 Document Received on 03-Jan-22
 Checked on 04-Jan-22

checked by