

## LESSON 4. PURCHASES AND SALES DOCUMENTATION

When you travel by train, you need a ticket as proof that you have paid. When you send a consignment of goods by rail or road you also need a receipt to prove the transport company has taken the goods. A consignment note is both a ticket and a receipt.



When companies buy goods, they send a **purchase order** to the suppliers. If the buyers are regular customers, the suppliers send the goods and then send an invoice. The buyers do not always pay the invoice immediately. The suppliers usually send a **statement** at the end of the month, which shows all the transactions between the suppliers and the buyers in that month. The buyers then pay the amount outstanding on the statement.

### What is a purchase order (PO)?



A **purchase order** is a form used to request goods and services. It contains a unique purchase order number and tells us what you want, the billing address and the shipping address.

It is also a **payment agreement** between a buyer and a seller (person who is supplying the goods/services).

A **purchase order** represents the formal and final agreement to a purchasing transaction with a seller. It identifies:

- ❖ the seller
- ❖ the material to be ordered
- ❖ the quantity
- ❖ the price
- ❖ the delivery date and terms of delivery
- ❖ the terms of payment



The ability to successfully finance an export sale depends on whether the sale is arranged properly or not. A detailed pro forma invoice -- or export quotation letter -- is one tool that can help to reduce the risks associated with international transactions.

### **What is a Pro Forma Invoice?**

The starting point of the export contract is in **the form of offer** made 'by the exporter to the foreign customer.' It is an estimate given as a reply to an inquiry. It normally forms the basis of all trade transactions.

The term **pro forma** is from the **Latin term**, which translates 'as a matter of form.' This document is very important in the exportation process, and a company often includes it in their response to a potential trade buyer.

A **“Proforma Invoice”** is an official quotation in an invoice format specifying price with tax and shipping charges – this allows the customer to present the Proforma Invoice to their Accounting Department and to arrange a prepayment. The **Proforma** guarantees a price and terms for a 60-day period of time while the customer acquires and/or transfers the funds.

It facilitates financing because, in addition to describing the product and setting the price and time of shipment, it can be used to establish the terms of sale and payment. It is most commonly requested by customers pre-paying orders via bank money transfer before shipping an order.

A **pro forma invoice** is an advance copy of the final invoice. **The pro forma invoice is often used by the importer to apply for a letter of credit (L/C) and foreign exchange (import) allocation.** It is the document that creates the link between an export operation and an import operation. It is not mandatory. It is usually issued to first time buyer or when foreign buyer asks for one.

A Pro- forma is also used as a pre-payment documents, this may happen with new customers whose credit status is unknown; for information, it may be used as a quotation,; and when goods are sent on approval, that is, when the seller sends samples of goods to the buyer who can then inspect them before he decides to buy. Preparing a pro forma invoice can also help to anticipate financing costs, which, in some cases, can be built into the selling price of the export.

### PRO - FORMA INVOICE

| <b>The company letterhead</b>   |                      |
|---|----------------------|
| <b>Pro-forma Invoice</b>  |                      |
| SHIP TO:  |                      |
| Company Name:   | Consignment Note No. |
| Attention Of:   | No. of Pieces:       |
| Street/Number:  | Total Weight:        |
| Town/Area Code:   | Dimensions:          |
| State/County:   |                      |
| Country:  | Phone No.            |
| Your VAT Number .....   |                      |
| Reason For Export.....  |                      |
|   |                      |
| I declare that to the best of my knowledge that the above information is true and correct and that the goods are of ..... origin. |                      |
| For and on behalf of the above named company.   |                      |
| Name (print)  | Signature            |
|   |                      |
| Date  | Position in company  |
|   |                      |
|   |                      |

## COMMERCIAL INVOICE

The **Commercial (or Export) Invoice** is the seller's bill of sale for the goods sold, specifying type of goods, quantity and price of each type and terms of sale. It is a very important document and is required by banks when they issue credit.

This is an invoice used in exporting and includes details of shipment, freight and insurance. **It is one of the shipping documents.** It must be carefully made out, as it is the basis for the Bill of Lading.

The **Commercial Invoice** is considered the most important document in international trade, because goods are not allowed to clear customs at the destination without one. This document is usually the one that all the service providers first look to for information about your shipment. It is essential to prepare the commercial invoice as clearly and accurately as possible to avoid problems with your shipment.

The **Commercial Invoice** fulfils these functions:

1. It is a bill or record of transaction between seller (shipper) and buyer (recipient), listing a complete description and sale price of the goods, the name and addresses of shipper, recipient, and buyer (if not the recipient), and if possible, purchase order or reference numbers for the transaction.
2. The **commercial invoice** is the basis for foreign Customs' identification, classification, duty/tax assessment, and final approval of entry of the goods.

3. The commercial invoice is the document that confirms the value of goods for insurance purposes.

The **Commercial Invoice** is the one single document that describes the entire transaction from start to finish. The basis for all other export and import documents, the Commercial Invoice is, in reality, a bill for the goods from the seller to the buyer. It is also **the primary shipping document** used by customs worldwide for commodity control and valuation.

Some countries also require other "invoices" which need to be prepared in addition to the commercial invoice. **These forms are often country-specific**, and they can usually be purchased from the foreign consulate. This document may also be prepared by the importer or their customs broker. They are referred to as **Consular Invoices**.

## Commercial Invoice

| <b>Export References:</b><br>Baking Technologies, Inc. quote number BT10102<br><b>Invoice No:</b> BT-1638<br>Mendez Panaderias S.A. <span style="float: right;">purchase order number M3652</span>                           |   |   |          |   |  |
|--|---|---|----------|---|--|
| <b>Exporter Name and Address:</b><br><br>Baking Technologies, Inc.<br>45 South 7th Street<br>Minneapolis, MN 55402   |   | <b>Ultimate Consignee Name and Address:</b><br>Mendez Panaderias S.A.<br>Col. Roma<br>Mexico D.F., C.P. 06760   |          | <b>Sold To Name and Address:</b><br>Mendez Panaderias S.A.<br>Col. Roma<br>Mexico D.F., C.P. 06760                                    |  |
| <b>Intermediate Consignee/Consigned to:</b><br>Galfiro Montemayor Brokers<br>Avenida de Colombia<br>1025 Veracruz, Mexico  |   | <b>Notify Party Name and Address:</b><br>Mendez Panaderias S.A.<br>Col. Roma<br>Mexico D.F., C.P. 06760<br>Phone: 5 25 1 348 1572<br>Contact: Carlos Mendez |          | <b>Date of Shipment:</b> 14JAN02<br><b>AWB/BL Number:</b> MXVZ<br>9707503<br><b>Currency:</b> USD<br><b>L/C N°:</b> 120ICCI000-990093 |  |
| <b>Conditions of Sale and Terms of Payment:</b><br><b>Freight:</b> Pre-Paid<br><b>Title Transfer Occurs At:</b><br>Minneapolis, Minnesota<br>CPT Veracruz, México per Incoterms 2000<br><b>Payment Terms:</b> Payable by L/C |   | <b>Transportation:</b><br><br><b>Via:</b> Ocean<br><br><b>From:</b> Port of Houston, Texas to Port of Veracruz, Mexico                                      |          | <b>Total Number of Packages:</b> 4<br><b>Total Net Weight (kgs):</b> 1,815<br><b>Total Gross Weight (kgs):</b> 2,722                  |  |
| Line No.   | Item Number, Harmonized Number, Product Description   | Country of Origin   | Quantity | Unit Price  | Total Price  |
| 1.   | Model BT002043<br>Baking/Kneading Equipment<br>Tariff Classification 8438.10<br><br>port Packing/Crating<br>U.S. Inland freight:<br>Minneapolis to Chicago<br>Forwarding fees<br>Ocean freight<br><br>Total CPT Veracruz, Mexico per Incoterms 2000 | USA   | 4        | 75,500  | USD 302,000<br><br><br>800<br>300<br>540<br>5,760<br><br>USD 309,400 |
| <b>Please Note: These commodities, technology, or software were exported from the United States in accordance with the Export Administration Regulations. Diversion contrary to U.S. law prohibited.</b>                     |   |   |          |   |  |
| <b>Authorized Signature:</b>   |   | Company: <b>Baking Technologies, Inc.</b>   |          |   |  |
| <b>Name:</b> Douglas R. Jacobson   |   | <b>Title:</b> Export Manager  |          |   |  |
| <b>Date:</b> 03JAN02   |   | <b>Telephone Number(s)</b><br>Voice: 987 654 3210   |          | Facsimile: 987 654 3211   |  |

## CONSULAR INVOICE

The **Consular Invoice** is a special form available through the embassy or consulate of the importing country. It is a statement that provides customs authorities in the importing country with an official document, signed by exporter or his authorized agent, specifying the consignor, consignee, prices, quantity, quality and nature of the shipment. This information is used to classify the goods for tariff rates, duties and other import taxes and charges.

The **Consular Invoice** is necessary for importing goods into some countries. It states the value for the customs authorities in the importing country. The exporter must guarantee that all the details on the invoice are accurate, and must sign it.

This invoice requires a detailed description of the goods and has spaces for showing marks, numbers, weights, value of the goods, their origin, and a declaration about the accuracy of the contents of the invoice. Often it is in the language of the importing country and must be filled out in that language.

It must be totally **error-free**. Forms are purchased from the **Consul of the importing country** and as many as six copies must be completed. The Consul must then legalise these documents. Other documents, such as the commercial invoice, usually have to be presented to the Consul at the time the consular invoice is validated.

## Consular Invoice

| THE GOVERNMENT of BRAZIL  |          |  |                   |
|---|----------|--|-------------------|
| Date:<br>Invoice No:<br>Issued At:  |          | Port of Loading<br>Port of Discharge<br>Date of Departure<br>Carrier |                   |
| EXPORTER  |          | CONSIGNEE  |                   |
| Marks and Numbers   | Quantity | Description of Goods   | Value of Shipment |
|   |          | Total (FOB, C&F, or CIF)   |                   |
| Other Charges<br><br><br><br><br>Certified Correct<br>By:<br>Witnessed By:<br>Fee Paid: |          | Amount of Charges<br><br><br><br><br>Total                           |                   |

**\* Vocabulary**

Go through the text and extract the words referred to purchases and sales documents. Write their definitions.

**\*\* Make a diagram stating the relationships between the documents studied.**

\* Fill in the following documents with information about your company.

## PROFORMA INVOICE

|  |  |  |                    |
|--|--|--|--------------------|
| <i>Export References:</i>  |  | <i>Expiration Date:</i>  |                    |
| <i>Exporter Name and Address:</i>  | <i>Ultimate Consignee Name and Address:</i>                          | <i>Sold To Name and Address:</i>   |                    |
| <i>Intermediate Consignee/Consigned to:</i>  | <i>Notify Party Name and Address:</i>                                | <i>Date of Shipment:</i><br><i>AWB/BL Number:</i><br><i>Currency:</i><br><i>Letter of Credit Number:</i>   |                    |
| <i>Conditions of Sale and Terms of Payment:</i><br><br><i>Freight (please mark): Pre-paid</i><br><i>___ Collect___</i><br><i>Title Transfer Occurs At:</i><br><i>Payment Terms:</i>                      | <i>Transportation method:</i><br><br><i>Via:</i><br><br><i>From:</i> | <i>Total Number of Packages:</i><br><i>Total Net Weight (kgs):</i><br><br><i>Total Gross Weight (kgs):</i> |                    |
| <i>Item Number, Product Description, Tariff Classification Number, Country of Origin</i>   |  | <i>Quantity</i>  | <i>Unit Price</i>  |
|  |  |  | <i>Total Price</i> |
| <i>Please Note: These commodities, technology, or software were exported from the United States in accordance with the Export Administration Regulations. Diversion contrary to U.S. law prohibited.</i> |  |  |                    |
| <i>Authorized Signature:</i>   |  | <i>Company:</i>  |                    |
| <i>Name:</i>   |  | <i>Title:</i>  |                    |
| <i>Date:</i>   | <i>E-mail:</i>   | <i>Telephone Number(s)</i><br><i>Voice:</i> <span style="float: right;"><i>Facsimile:</i></span>           |                    |

*This invoice is for export/import purposes only and not intended for payment purposes*

|                    |              |          |                 |               |                    |      |
|--------------------|--------------|----------|-----------------|---------------|--------------------|------|
|                    |              |          |                 | 1. DATE       |                    |      |
| COMMERCIAL INVOICE |              |          |                 | DAY           | MONTH              | YEAR |
|                    |              |          |                 |               |                    |      |
| 2. SUPPLIER:       |              |          |                 | 3. ORDER No.: |                    |      |
| 4. ADDRESS:        |              |          |                 |               |                    |      |
| 5. PRICE:          |              |          | 6. PAYMENT:     |               | 7. INSURANCE:      |      |
| 8. NOTIFY:         |              |          | 9. CONSIGNEE:   |               | 10. VIA:           |      |
| 11. ITEM           | 12. QUANTITY | 13. UNIT | 14. DESCRIPTION | 15. PRICE     | 16. VALUE          |      |
|                    |              |          |                 |               |                    |      |
|                    |              |          |                 |               |                    |      |
|                    |              |          |                 |               |                    |      |
|                    |              |          |                 |               |                    |      |
| 17. COMMENTS:      |              |          |                 |               |                    |      |
|                    |              |          |                 |               |                    |      |
| 18. DONE BY:       |              |          | 19. REVISED BY: |               | 20. AUTHORIZED BY: |      |

## REFERENCES

Platt, G. (1999). Guide to the Finance of International Trade.  
Trade Services Marine Midland Bank. The Journal of Commerce.

STEP's International Finance and Logistics Group.  
<http://www.sasktrade.sk.ca/membersonly/financelogistic.shtml>

Documents from <http://www.export911.com>

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