

Open Account Payment

Under the sales contract, the seller is responsible for shipping and dispatching all necessary shipping documents directly to the buyer, who will clear the goods at the destination. The buyer will arrange payment to the seller at a later date as per the agreed terms.

Steps in the Open Account Cycle:

1. Shipment and Document Dispatch:

- The seller effects the shipment and dispatches all shipping documents directly to the buyer.
- The seller submits copies of the required documents, including customs documents, to their bank as proof of export within the time specified by the regulators.

2. Compliance Checks by Seller's Bank:

- The seller's bank performs compliance checks according to bank policy, reviewing the parties involved, goods description, origin, routing of the goods, etc.
- The seller's bank monitors the transaction to ensure that the corresponding payment is received within the time specified by the regulators.

3. Buyer's Document Presentation:

- The buyer presents copies of the required documents to their bank, along with customs documents, as evidence of the import of goods within the time specified by the regulators.

4. Compliance Checks by Buyer's Bank:

- The buyer's bank performs compliance checks according to bank policy, reviewing the parties involved, goods description, origin, routing of the goods, etc.
- The buyer's bank monitors the transaction to ensure that the corresponding payment is made to the seller within the time specified by the regulators.

5. Payment Request by Buyer:

- On the due date, the buyer requests their bank to effect payment to the seller using the prescribed form (if any), indicating the reference of the transaction with full details of the seller's bank.

6. Buyer's Bank Payment Process:

- The buyer's bank verifies that the payment instruction is signed by an authorized signatory as per bank records.
- The buyer's bank transfers the funds to the seller's bank, recording the payment against the shipment already received.

7. Seller's Bank Credit Process:

- The seller's bank credits the amount to the seller's account after adjusting against the outstanding export proceeds account.

Rationale for Open Account Arrangement:

Despite the substantial risk for the seller in an open account arrangement, the seller may agree to this method for the following reasons:

- Long-term business relationship with the buyer.
- Desire to engage the buyer for a long time business relationship.
- Intent to increase business turnover.
- Market penetration strategies that demand an open account system.
- Buyer may be a subsidiary of the seller.

Advantages to the buyer	Advantages to the seller
<ul style="list-style-type: none"> • No credit risk • No finance costs (interest) • Limited bank charges 	<ul style="list-style-type: none"> • Improvement of sales turnover

Risks to the buyer	Risks to the seller
<ul style="list-style-type: none"> • Performance Risk 	<ul style="list-style-type: none"> • Credit risk • Country risk