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Pro Forma Invoice

The American Heritage Dictionary defines *pro forma* as:

1. Done as a formality; perfunctory.
2. Provided in advance so as to prescribe form or describe items: *a pro forma copy of a document.*

In international trade, the Pro Forma invoice is intended to be a representation of what a transaction will look like if, or when, the transaction is ultimately consummated. The seller prepares a Pro Forma invoice to provide a visual representation to the buyer of what the final commercial invoice will look like if the seller and buyer actually conclude the transaction.

It customarily takes the same form and format as the commercial invoice yet is titled “Pro Forma”. The pro forma invoice will tell the financial story of the forthcoming transaction. It will define the parties to the transaction, the contractual terms proposed such as payment method and term of sale (Incoterm), provide a description of the goods subject to the transaction, quantities, unit price, extended price, and any other costs that the seller expects to recover from the buyer. The latter are often determined by the term of sale proposed.

Some sellers may use the pro forma invoice as a method of price quotation to a prospective buyer. In setting out all the terms, conditions and details of the proposed transaction, the seller will indicate that the pro forma represents an offer to sell and will then indicate a time period during which the offer is valid. Accepted by the buyer, this can lead to a formal contract between the parties.

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Pro Forma Invoice *Continued*

Often buyers will require a pro forma invoice from a seller if the agreed upon term of payment is documentary credit (letter of credit). The buyer will need a pro forma invoice to accompany its application to a bank for the issuance of the letter of credit. A second instance where the pro forma will be required by the buyer is when it must apply to its own government for permission to import the goods (import license) subject of the forthcoming transaction.

Though the title of the document contains the word “invoice”, from an accounting perspective the amounts are not to be recorded by the seller as a receivable or by the buyer as a payable. The pro forma is a representation of something that will happen in the future. When it finally does happen a commercial invoice will be issued.

Once a pro forma is issued by a seller the commercial invoice that follows when the transaction actually occurs should not differ. The buyer has relied upon the pro forma as a representation of the transactions terms and conditions. As importantly, the buyer’s bank or the buyer’s government may have also relied upon the document as the basis of a financial instrument or a license of some sort. A seller’s unilateral change to the commercial invoice from that represented upon the pro forma could cause the buyer considerable problem. Any difference between the pro forma and the commercial invoice must be understood and agreed to by all parties to the transaction.

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