

Component: Revenues (IAS 18)
Short title: Revenue recognition on delivery terms

Issue

Metal producers typically ship products to customers under a variety of delivery terms. These delivery terms range from ex-works (where the customer collects product) to delivered duty paid (where the goods are delivered to a specified destination, cleared for import).

When should revenue usually be recognised on different delivery terms typical to the metals industry?

Solution

The following conditions must be satisfied before revenue is recognised:

- a) The entity has transferred to the buyer the significant risks and rewards of ownership;
- b) The entity does not retain either the continuing managerial involvement normally associated with ownership or effective control over the goods;
- c) The amount of revenue can be reliably measured;
- d) It is probable that the economic benefits associated with the transaction will flow to the entity; and
- e) The costs to be incurred in respect of the transaction can be reliably measured

The International Chamber of Commerce Terms of Trade ("Incoterms") set out for each specified delivery term the primary duties of both sellers and buyers of goods under Incoterms. Incoterm identify when the risks and rewards of ownership transfer from the seller to the buyer. The risks and rewards of ownership transfer when the seller has completed their primary duties. The following table highlights examples of common delivery terms and when the transfer of risks and rewards usually occurs.

Delivery term	Key features	Revenue recognition point
Ex-works (EXW)	Goods are collected from the seller's premises by the buyer who arranges for delivery to the buyer's premises.	When the buyer takes goods from the seller's premises.
Free on Board (FOB)	Goods are delivered by the seller to a named port of shipment, providing export clearance where required.	When the goods are delivered over the ship's rail at the port of shipment.
Carriage, Insurance and Freight (CIF)	Goods are delivered by the seller to a named port of shipment, providing export clearance where required. In addition, the seller arranges and pays for carriage and insurance. The buyer is the named beneficiary of any insurance however.	When the goods are delivered over the ship's rail at the port of shipment. Under the Incoterms, risks and rewards transfer when the goods pass the ship's rail. Although the seller arranges and pays for carriage and insurance, the buyer is the primary beneficiary of these and the seller has completed their primary duties when the goods are loaded at the port of shipment.
Delivered Ex-Ship (DES)	Goods are delivered by the seller to the port of destination.	When the goods arrive at the port of destination.
Delivered Duty Paid (DDP)	Goods are delivered by the seller to a named destination with import clearance obtained where required.	When the goods have been delivered to the named destination with appropriate import clearances.