

Revenue recognition of date on which the export sales in CIF term

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Introduction

XYZ Super mattress PLC is a one of the biggest gained expertise through continuous research and development in natural foam rubber technology over many decades. Company first mattress produced in 1987; today they are the biggest fully backward integrated high quality natural Latex manufacturer in the local and export market. Company's Operation Integration is as follows,

1. Company Latex is processed in their own centrifuge plant within the plantations
2. Manufacturing of natural Latex foam happens in their factory which is 60Kmts away from the plantations and make sure that they use timely matured fresh Latex in to the production
3. Company own shipping company takes care of the shipment to customer's doorstep with excellent service in clearing and forwarding through their agents around the world

Discussion of the Issue

Recently Company has recognized revenue in export sales, when the goods are delivered from their stores. But the LKAS 18 clearly says that revenue should be recognized on the date on which significant risks and rewards are

transferred to the customers. The company has identified the revenue immediately in the income statement after the transfer the goods to the customers. But it should not be recognized in the income statement. According to the LKAS 18 revenue should be recognized, when the goods are arrived at the customer's port. Because of this case the company's revenue has been overstated and as a result company's profit has been increased. Those export sales are not yet delivered to the customers, because company normally export goods to Asian and European Countries, such as Canada, German, France, USA etc. Goods shipping days normally take 10 to 20 days to arrive at customer's port.

Conclusions and Recommendations

According to LKAS 18 Company can't recognize the export sales in CIF term, until arrival at customer's port. In that point significant risk and rewards has been transferred to the customer's. Then recently company revenue has been included the CIF term export sales in the year-end sales amount, but it relates to next year sales. It should be reversed against the revenue and write-off to the income statement. When the goods are arrived at customer's port, revenue can be recognized in their income statement. Company can prepare separate schedules to identify the CIF term export sales, and then they can recognize the year-end sales amount related in next year.