

Recognition of export income when risks and rewards transfer to buyer

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Introduction

XYZ (Pvt) Ltd was established under the Sri Lankan law in 2009 and is settled in the Koggala Export Processing zone close to Galle on the Southern Coast of Sri Lanka. XYZ (Pvt) Ltd. applied and received the status of BOI Company (Board of Investment of Sri Lanka) in order to benefit exemption of import and export taxes.

The company produces different types of rope products and sales only to the foreign market and they had agreed to sell their products to the customers on FOB term. But the company had recognized their export income based on the invoice date. But the products were not loaded to vessels on the same date.

Discussion of the Issue

When determine the income from sale of goods, the company needs to satisfy several conditions. Especially risks and rewards associated with the goods should be transferred to buyer from seller. The risks and rewards are not transferred to buyer when the company recognizes their sales income at invoice date. As a result of that export income of the company is increased. As well as value of the debtors shown in the statement of financial position are overstated and inventory value is understated. That leads to mislead the

financial statements. Therefore the company cannot recognize export income at invoice date.

Conclusions and Recommendations

According to the LKAS 18 "Recognition of Revenue", there are five (5) conditions need to be satisfied when recognize sale of goods as revenue. They are;

- The significant risks and rewards of ownership of the goods have been transferred to the buyer
- The seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold
- The amount of revenue can be measured reliably
- It is probable that future economic benefits associated with the transaction will flow to the entity
- The costs incurred or to be incurred can be measured reliably

According to this issue, all the above conditions are not satisfied at invoice date. The reason is significant risks and rewards of ownership of the goods have not been transferred to the buyer at the invoice date. It is transferred when the goods are loaded to the vessels that means at the shipment date. Therefore the company should recognize their export income at bill of lading date not the invoice date.