

Identifying the revenue of an export company which sells goods under FOB terms

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Introduction

The case is relating to the company name XYZ (Pvt) Ltd which exporting fruits and vegetables overseas. We have performed the external audit for the financial year ended 31/03/2013 for the company. During the audit we have identified the issue relating to the recognition of revenue from export sales.

Discussion of the Issue

We have noted that the company has recognized the revenue at the time they dispatch the goods from warehouse. But the company's delivery terms of the goods is Free on Board (FOB), meaning that the buyer pays for transportation of the goods. However company should recognized the revenue according to the provisions given by *LKAS 18 Revenue*. Implications of the issue can be justified as follows.

- Risk & rewards have not been passed at the date of invoice.
- Cut-off test was inaccurate.
- Revenue may be overstated or understated.

Conclusions and Recommendations

Revenue should be recognized based on the Bill of Lading date because company has exported goods under FOB terms. Therefore up to issuing bill of lading, seller has not

transferred significant risks and rewards of ownership of the goods to the buyer.

According to the *IKAS 18* Revenue from the sale of goods shall be recognized when all the following conditions have been satisfied

- (a) The entity has transferred to the buyer the significant risks and rewards of ownership of the goods ;
- (b) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (c) The amount of revenue can be measured reliably;
- (d) It is probable that the economic benefits associated with the transaction will flow to the entity ; and
- (e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.