

4. Others

(1) Ownership of inventory (Goods in transit)

- ① F.O.B. Shipping point : Title passes to the buyer when the seller delivers the goods to the common carrier → Include in customer's inventory
- ② F.O.B. Destination : Title passes to the buyer when the buyer receives the goods → Include in vendor's inventory

〈비교〉 Sales return 이나 purchase return의 경우 Vendor쪽에서 authorize하는 시점에 Inventory의 ownership은 상대방으로 이전된다.

If the seller ships the wrong goods, the title reverts to the seller upon rejection by the buyer. Thus, the goods should not be included in the buyer's inventory, even if the buyer possesses the goods prior to their return to the seller.

(2) Consignment sales (위탁판매)

Consignment is when the dealer or distributor has not obtained control of the product. Revenue is recognized when the dealer or distributor sells the product to a customer. Indicators of a consignment arrangement include

1. The entity controls the product until a specified event occurs. (the sale of the product to the customer)
2. The dealer does not have an unconditional obligation to pay the entity for the product.
3. The entity can require the return of the product or transfer the product to another party.

위탁판매란 위탁자가 수탁자에게 상품을 인도하고 판매를 위임하는 매출로서, 위탁자는 수탁자가 매출을 한 경우에 있어서만 매출을 인식할 수 있고 수탁자가 미판매한 재고자산의 경우는 위탁자의 기말시점 재고자산에 포함되어야 하며, 수탁자의 경우는 판매한 대금을 위탁자에게 송금을 하되, 계약서상에 명시되어 있는 수수료만큼을 차감한 금액을 송금하면 된다.

Consignors consign their goods to consignees but consigned goods are the property of the consignor.

- ① Consignment sales revenue : Consignee가 consigned goods를 팔았을 때 consignor가 인식한다. 따라서 consignee가 연말시점으로 팔지 않은 재고자산은 여전히 consignor의 재고자산에 포함시켜야 함.
- ② Consignee의 sales commission : Consignor의 selling expense로 간주된다.
- ③ consignor → consignee로의 운반비용은 취득원가에 포함되어야 한다.

Memo

Memo

	위탁자 (Consignor)	수탁자 (Consignee)
1. Consignor ships 100 units costing \$20 each to consignees	Dr. Inventory on consignment 2,000 Cr. Inventory 2,000	No entry
2. Consignor pays \$100 in freight cost and \$100 in insurance premium	Dr. Inventory on consignment 200 Cr. Cash 200	No entry
3. Consignee sells 100 units at \$30, and receives 10% commission	Dr. Cash 2,700 Commission expense 300 Cr. Consignment sales 3,000	Dr. Cash 3,000 Cr. Commissions revenue 300 Payable to consignor 2,700
	Dr. Cost of consignment sale 2,200 Cr. Inv. on consignment 2,200	Dr. Payable to consignor 2,700 Cr. Cash 2,700

〈Check Q〉 On December 21, 2004, AIFA Co. consigned fifty freezers (Cost per unit : \$1,000) to AI Co. for sale at \$2,000 each and paid \$1,000 in transportation costs. On December 31, 2004, AI Co. reported the sale of ten freezers and commission rate is 15%.

- (1) Sales revenue in 2004
- (2) Gross margin
- (3) Operating income
- (4) The amount that should be paid to AIFA in 2004.

〈Additional Information〉

What if AI Co. makes the payment as advertisement expense amounting to \$ 500 which will be reimbursed by AIFA ?

Principal vs. Agent

Whenever an entity uses another party to provide goods or services to a customer, the entity needs to determine whether it is acting as a principal or agent.

Indicators that an entity is an agent and does not control the good or service before it is provided to the customer include

1. Another party is primarily responsible for fulfilling the contract
2. The entity does not have inventory risk and
3. The entity does not have discretion in establishing prices for the other party's goods or services.

(3) Purchase commitment (매입약정)

- ① 구매자가 판매자의 상품 중 일정수량을 미래의 일정한 가격으로 매입하겠다는 약정이다.
- ② 매입계약이 체결되었다는 사실로 인도 받을 상품을 구매자의 재고자산에 포함시키지는 않는다.
- ③ If there is a decline in market value below contract price at 12/31 and the contracts are non-cancelable, the loss must be recorded in the periods of decline. ➔ Conservatism.

Example

10/1/X1, non-cancelable purchase contract to purchase 30 units at \$ 100/unit. But 12/31/X1, the market price is \$80 /unit. On 4/1/X2, A Co. received the item.

10/1/X1)	No entry			
12/31/x1)	Dr. Estimated loss on PC	600	Cr. Estimated liability on PC	600
4/1/X2)	Dr. Inventory	2,400	Cr. Cash	3,000
	Estimated liability on PC	600		

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(4) Sales with a Right to Return

If goods are sold but the buyer has the right to return the goods, the goods should be included in the seller's inventory if the amount of the goods likely to be returned cannot be estimated.

If the amount of goods likely to be returned can be estimated, the transaction will be recorded as a sale with an allowance for estimated returns recorded. Revenue from a sale transaction in which the buyer has the right to return the goods shall be recognized at the time of the sale only if the following five conditions are met.

1. The sales price is substantially fixed at the date of sale
2. The buyer assumes all risks of loss because the goods are in the buyer's possession.
3. The buyer has paid some form of considerations.
4. The product sold is substantially complete.
5. The amount of future returns can be reasonably estimated.

(5) Bill and Hold Arrangements

Bill and Hold arrangements are contracts in which the entity bills a customer for a product that it has not yet delivered to the customer. Revenue cannot be recognized in a bill and hold arrangement until the customer obtains control of the product. For a customer to have obtained control of a product in a bill and hold arrangement, all of the following criteria must be met :

1. There must be a substantive reason for the arrangement.
2. The product has been separately identified as belonging to the customer.
3. The product is currently ready for transfer to the customer
4. The entity cannot use the product or direct it to another customer.



Memo

Example : Bill and Hold

Facts : On January 1, AIFA Co. enters into a contract with KOS Co. for the sale of an excavator and spare parts. The manufacturing lead time is 18 months. On July 1 of the following year, KOS pays for the machine and spare parts, but only takes possession of the machine. KOS inspects and accepts the spare parts, but require that the parts be stored in AIFA' s warehouse because KOS does not have a place to store the parts and its premises are very close to AIFA' s warehouse.

AIFA expects to store the spare parts in a separate section of its warehouse for three years. The parts are available for immediate delivery to KOS. AIFA cannot use the spare parts or transfer them to another customer.

Required : Identify the performance obligation(s) in this contract and determine when revenue is recognized on each performance obligation.

Solution

There are three performance obligations in this contract:

1. Promise to provide the excavator
2. Promise to provide spare parts
3. Custodial services related to the spare parts

KOS obtains control of the spare parts on July 1 because all of the criteria are met (i.e., there is a substantive reason for AIFA to hold the spare parts, the parts are separately identified and ready to transfer, and AIFA cannot use the parts or transfer them to another customer).

AIFA recognizes revenue for the excavator and spare parts on July 1 when the excavator is transferred to KOS and KOS has obtained control of the spare parts.

AIFA recognizes revenue on the custodial services over the three years that the services are provided.