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To all Mr. and Mrs. Clients
Their offices

Reggio Emilia, Jan. 9, 2024

MEMORANDUM N. 01/2024

Insight

Subject: When should goods in transit be entered as inventories

Accounting standard OIC 13 specifies that the time from which an asset can be included in inventory coincides with the time when the company assumes the risks and rewards associated with it. The transfer of risks and rewards usually takes place with the transfer of ownership in accordance with contractually agreed terms. If, by virtue of specific contractual clauses, there is no coincidence between the date on which the transfer of risks and benefits takes place and the date on which title is transferred, the date on which the transfer of risks and benefits takes place prevails.

The time of the transfer of risks is unambiguously identified by the *Incoterms* (International Commercial Terms) rendering term where the same has been clearly and completely stated in the contract. The Incoterms currently in effect were approved by the International Chamber of Commerce in 2019 and have been operational since 2020 (**see attached table taken from the International Chamber of Commerce**).

At the end of the fiscal year, there is the problem of inventorying goods already shipped by the seller but not yet received by the buyer (still on the way), with the need to identify, based on Incoterms, the party against whom the contractually stipulated risks and benefits exist.

Let us give some examples:

1) in 2023 A sells to B under the ex works (or Ex Works) clause goods made available to B by December 31, but which B receives at its plant in 2024; as of 12/31/2023 the risks have already passed to B and, therefore, the goods

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should not be inventoried by A but by B;

2) in 2023, A sells to B under the DAP (Delivered at Place) clause goods that B receives in 2024; as of 12/31/2023, the risks are still borne by A who therefore must inventory the goods in his own warehouse.

The Firm remains available for any clarifications.

Best regards.

SGB & Partners - Commercialisti

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TERMS FOR EACH TYPE OF TRANSPORT

These rules can be used regardless of the mode of transport chosen and even if more than one mode of transport is used.

EXW Ex Works

"Ex Works" means that the seller makes delivery by making the goods available to the buyer at its premises or other agreed place (factory, warehouse, etc.). The seller has no obligation to load the goods on the pickup vehicle or to clear them for export, if such customs clearance is provided. EXW entails the minimum level of obligations for the seller.

FCA Free Carrier

"Free Carrier": the seller makes delivery by remitting the goods to the carrier or other person designated by the buyer at its premises or other agreed place. FCA requires the seller, if provided, to clear the goods for export, but not for import into the country of destination, an obligation incumbent on the buyer as well as that of paying any import duties or completing any customs formalities upon importation. FCA requires the buyer, if any, to instruct the carrier to issue a bill of lading to the seller. FCA is the recommended deadline for container delivery.

CPT Carriage Paid To

"Carriage Paid To" means that the seller makes delivery by remitting the goods to the carrier or other person designated by the seller at an agreed place (if such a place has been agreed upon by the parties) and that the seller must enter into the contract of carriage and bear the expenses necessary to send the goods to the agreed place of destination. When CPT, CIP, CFR or CIF are used, the seller fulfills his obligation to make delivery when he remits the goods to the carrier and not when the goods arrive at the place of destination.

CIP Carriage And Insurance Paid To

"Carriage and Insurance Paid to": the seller makes delivery by remitting the goods to the carrier or other person designated by the seller at an agreed place (if such a place has been agreed between the parties). That place is the point at which risk passes to the buyer, although it is the seller's responsibility to enter into the contract of carriage and to bear the costs of sending the goods to the agreed place of destination. The seller also provides insurance coverage against the buyer's risk of loss or damage to the goods during transportation. The buyer should note that under the CIP rule the seller is obliged to obtain insurance coverage covering "all risks" except those explicitly excluded. The parties are, however, free to agree on a different, hence less extensive, level of insurance coverage. CIP requires the seller, if applicable, to clear the goods for export, but not for import into the country of destination, an obligation incumbent on the buyer as well as that of paying any import duties or completing any customs formalities upon importation.

DPU Delivered at Place Unloaded

"Return to the Unloaded Destination Place": the seller makes delivery by making the unloaded goods available to the buyer at the agreed port or place. Such port or place includes any space, covered or uncovered, such as a dock, warehouse, container yard, road, rail, or airport terminal. The seller bears all risks associated with the transportation and unloading of the goods at the agreed port or place of destination. DPU requires the seller, if applicable, to clear the goods for export, but not for import into the country of destination, an obligation incumbent on the buyer as well as that of paying any import duties or completing any customs formalities upon importation.

DAP Delivered At Place

"Delivered at the Place of Destination" means that the seller makes delivery by making the goods available to the buyer on the arriving means of transportation ready for unloading at the agreed place of destination. The seller bears all risks associated with transporting the goods to the agreed place. If the seller incurs expenses provided for in his contract of carriage relating to unloading at the place of destination, he is not entitled to recover those expenses from the buyer, unless otherwise agreed by the parties. DAP requires the seller, if applicable, to unload the goods upon export. However, the seller has no obligation to clear the goods for import, pay any import duties, or perform any customs formalities upon import.

DDP Delivered Duty Paid

"Returned Duty Paid" means that the seller makes delivery by placing the goods at the buyer's disposal, cleared for import, on the arriving means of transport ready for unloading at the agreed place of destination. The seller bears all the costs and risks involved in transporting the goods to the place of destination and is obligated to clear the goods not only for export but also for import, pay any fees for both export and import, and complete all customs formalities. If the seller incurs expenses provided for in his contract of carriage relating to unloading at the place of destination, he is not entitled to recover such expenses from the buyer, unless otherwise agreed by the parties. VAT or other similar taxes payable on importation shall be borne by the seller unless otherwise explicitly agreed in the sales contract. The DDP carries the maximum level of obligation for the seller.

TERMS FOR TRANSPORTATION BY SEA

The following rules can only be used when transporting by sea or inland waterways.

FAS Free Alongside Ship

"Free Alongside Ship" means that the seller makes delivery by placing the goods alongside the ship (e.g., on a dock or over a barge) designated by the buyer at the agreed port of embarkation. The risk of loss or damage to the goods passes when the goods are underboard the ship, and the buyer bears all costs from that point forward. The seller must arrange for the goods to be delivered alongside the ship or procure the goods already so delivered for shipment. The reference to "procure" here pertains to so-called multiple chain sales. FAS requires the seller, if applicable, to clear the goods for export. However, the seller has no obligation to clear goods for import, pay any import duties, or complete any customs formalities upon import.

FOB Free On Board

"Free on Board" means that the seller makes delivery by placing the goods on board the vessel designated by the buyer at the named port of embarkation or by procuring the goods already so delivered. The risk of loss or damage to the goods passes when the goods are on board the ship and the buyer bears all expenses from that time forward. The seller must arrange for the goods to be delivered on board ship or procure the goods already so delivered for shipment. The reference to "procure" here pertains to so-called multiple chain sales. FOB requires the seller, if applicable, to clear the goods for export. However, the seller has no obligation to clear the goods for import, pay any import duties, or complete any customs formalities upon importation.

CFR Cost and Freight

"Cost and Freight" means that the seller makes delivery by placing the goods on board the ship or procuring the goods already so delivered. The risk of loss or damage to the goods passes when the goods are on board the ship. The seller must enter into the contract of carriage and bear the expenses involved in sending the goods to the agreed port of destination. This rule has two critical points, because the passing of risk and the transfer of expenses occur in different places. While the contract will always specify a port of destination, it may not specify the port of embarkation, where the risk passes to the buyer. If the port of embarkation is of particular interest to the buyer, it is recommended that the parties specify it as clearly as possible in the contract. If the seller incurs expenses provided for in his contract of carriage relating to unloading at a specific point at the port of destination, he is not entitled to recover those expenses from the buyer, unless the parties agree otherwise.

CIF Cost, Insurance and Freight

"Cost, Insurance and Freight" means that the seller makes delivery by placing the goods on board the ship or procuring the goods already so delivered. The risk of loss or damage to the goods passes when the goods are on board the ship. The seller must enter into the contract of carriage and bear the expenses involved in sending the goods to the agreed port of destination. The seller shall also provide insurance coverage against the buyer's risk of loss or damage to the goods during transportation. The buyer should note that under the CIF rule the seller is obligated to obtain only minimum insurance coverage. Where the buyer wishes to have broader insurance protection, he or she must make express arrangements with the seller or arrange for supplemental insurance directly. This rule has two critical points, because the passing of risk and the transfer of expenses occur in different places. While the contract will always specify a port of destination, it may not specify the port of embarkation, where the risk passes to the buyer.