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To whom it may concern

Reggio Emilia, Dec. 18, 2024

MEMORANDUM N. 53/2024

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 occurs 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 passing 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, the problem of inventorying goods already shipped by the seller but not yet received by the buyer (still en route) arises, with the need to identify, based on Incoterms, the party against whom the contractually stipulated risks and benefits exist.

Let's give some examples:

1) in 2024, A sells to B under the ex works (or Ex Works) clause goods made available to B by Dec. 31, but which B receives at its plant in 2025; as of Dec. 31, 2024, the risks have already passed to B and, therefore, the goods should not be inventoried by A but by B;

2) in 2024, A sells goods to B under the DAP (Delivered at Place) clause, which B

receives in 2025; as of 12/31/2024, the risks are still borne by A, who will therefore have to inventory the goods in its warehouse.

The Firm remains available for clarification.

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TERMS FOR EACH TYPE OF TRANSPORT

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

EXW (Ex Works)

"Ex Works" means that the seller delivers by placing the goods at the buyer's disposal at the seller's premises or another agreed location (factory, warehouse, etc.). The seller is not obliged to load the goods onto the collecting vehicle nor to clear them for export if such clearance is required. EXW involves the minimum obligations for the seller.

FCA (Free Carrier)

"Free Carrier" means that the seller delivers the goods to the carrier or another person designated by the buyer at the seller's premises or another agreed location. FCA requires the seller, if applicable, to clear the goods for export but not for import in the destination country. The obligation to clear goods for import and pay any import duties or complete customs formalities at import falls on the buyer. FCA also requires the buyer, if applicable, to instruct the carrier to issue a bill of lading to the seller. FCA is the recommended term for container delivery.

CPT (Carriage Paid To)

"Carriage Paid To" means that the seller delivers the goods to the carrier or another person designated by the seller at an agreed location (if such a location has been agreed by the parties) and must contract for and bear the costs necessary to transport the goods to the agreed destination. When using CPT, CIP, CFR, or CIF, the seller fulfills their delivery obligation when they hand the goods over to the carrier, not when the goods reach the destination.

CIP (Carriage and Insurance Paid To)

"Carriage and Insurance Paid To" means that the seller delivers the goods to the carrier or another person designated by the seller at an agreed location (if such a location has been agreed by the parties). This location marks the point at which the risk transfers to the buyer, even though the seller must arrange the transport contract and bear the costs necessary to send the goods to the agreed destination. The seller also provides insurance coverage against the buyer's risk of loss or damage to the goods during transport. The buyer should note that under the CIP rule, the seller is obligated to obtain insurance coverage that covers "all risks," except those explicitly excluded. However, the parties are free to agree on a different, less comprehensive level of insurance coverage. CIP requires the seller, if applicable, to clear the goods for export but not for import in the destination country, which remains the buyer's responsibility along with any import duties or customs formalities.

DPU (Delivered at Place Unloaded)

"Delivered at Place Unloaded" means that the seller delivers the goods, unloaded, at the buyer's disposal at the agreed port or location. This location can include any area, covered or uncovered, such as a dock, warehouse, container yard, or road, rail, or air terminal. The seller bears all risks associated with transporting and unloading the goods at the agreed port or destination. DPU requires the seller, if applicable, to clear the goods for export but not for import in the destination country. Import clearance, duties, and any customs formalities are the buyer's responsibility.

DAP (Delivered at Place)
"Delivered at Place" means that the seller delivers the goods by placing them at the buyer's disposal on the arriving means of transport, ready for unloading at the agreed destination. The seller bears all risks

associated with transporting the goods to the agreed location. If the seller incurs unloading costs under their transport contract, they are not entitled to recover these costs from the buyer unless otherwise agreed. DAP 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 fulfill any import customs formalities.

DDP (Delivered Duty Paid)

"Delivered Duty Paid" means that the seller delivers the goods by placing them at the buyer's disposal, cleared for import, on the arriving means of transport, ready for unloading at the agreed destination. The seller bears all costs and risks associated with transporting the goods to the destination and is obligated to clear the goods not only for export but also for import. The seller must pay any export and import duties and complete all customs formalities. If the seller incurs unloading costs under their transport contract, they are not entitled to recover these costs from the buyer unless otherwise agreed. VAT or similar import taxes are the seller's responsibility unless explicitly agreed otherwise in the sales contract. DDP imposes the maximum level of obligations on the seller.

TERMS FOR MARITIME TRANSPORT

The following rules apply exclusively to sea or inland waterway transport.

FAS (Free Alongside Ship)
"Free Alongside Ship" means that the seller delivers the goods by placing them alongside the vessel (e.g., on a quay or barge) designated by the buyer at the agreed port of shipment. The risk of loss or damage to the goods transfers to the buyer when the goods are alongside the ship, and the buyer assumes all costs from that point onward. The seller must ensure the goods are delivered alongside the ship or procure the goods already delivered in this manner for shipment. The term "procure" here refers to so-called chain sales. FAS 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 fulfill any import customs formalities.

FOB (Free On Board)
"Free On Board" means that the seller delivers the goods by placing them on board the vessel designated by the buyer at the agreed port of shipment or by procuring the goods already delivered on board. The risk of loss or damage to the goods transfers to the buyer once the goods are on board the ship, and the buyer assumes all costs from that point onward. The seller must ensure the goods are delivered on board the ship or procure the goods already delivered in this manner for shipment. The term "procure" here refers to so-called 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 fulfill any import customs formalities.

CFR (Cost and Freight)
"Cost and Freight" means that the seller delivers the goods by placing them on board the ship or by procuring the goods already delivered in this manner. The risk of loss or damage to the goods transfers to the buyer when the goods are on board the ship. The seller must contract for the carriage of the goods and bear the costs necessary to transport the goods to the agreed port of destination. This rule has two critical points because the transfer of risk and the allocation of costs occur at different locations. While the contract will always specify a port of destination, it may not specify the port of shipment, where the risk passes to the buyer. If the port of shipment is of particular importance to the buyer, the parties are advised to specify it as clearly as possible in the contract. If the seller incurs unloading costs under their transport contract for

a specific point in the port of destination, they are not entitled to recover these costs from the buyer unless otherwise agreed.

CIF (Cost, Insurance, and Freight)
"Cost, Insurance, and Freight" means that the seller delivers the goods by placing them on board the ship or by procuring the goods already delivered in this manner. The risk of loss or damage to the goods transfers to the buyer when the goods are on board the ship. The seller must contract for the carriage of the goods and bear the costs necessary to transport the goods to the agreed port of destination. Additionally, the seller provides insurance coverage against the buyer’s risk of loss or damage to the goods during transport. The buyer should note that under the CIF rule, the seller is obligated to obtain only minimum insurance coverage. If the buyer desires broader insurance protection, they must explicitly agree with the seller or arrange for supplementary insurance independently. Like CFR, this rule has two critical points because the transfer of risk and allocation of costs occur at different locations. While the contract will always specify a port of destination, it may not specify the port of shipment, where the risk transfers to the buyer.