

Interpretation of the Emerging Accounting Issues Working Group

INT 01-11: EITF 00-10: Accounting for Shipping and Handling Fees and Costs

ISSUE DEEMED NOT APPLICABLE TO STATUTORY ACCOUNTING MOVED TO INT 99-00

INT 01-11 Dates Discussed

December 4, 2000; March 26, 2001

INT 01-11 References

None

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1. Shipping and handling costs are incurred by most companies that sell goods; however, diversity in practice exists regarding the income statement classification of amounts charged to customers for shipping and handling, as well as for costs incurred related to shipping and handling. Many sellers charge customers for shipping and handling in amounts that exceed the related costs incurred. Some display the charges to customers as revenues and the costs as expenses, while others net the costs and revenues.

2. The components of shipping and handling costs, and the determination of the amounts billed to customers for shipping and handling, may differ from company to company. Some companies define shipping and handling costs as only those costs incurred for a third-party shipper to transport products to the customer. Other companies include as shipping and handling costs a portion of internal costs, for example, salaries and overhead related to the activities to prepare goods for shipment. In addition, some companies charge customers only for amounts that are a direct reimbursement for shipping and, if discernible, direct incremental handling costs; however, many other companies charge customers for shipping and handling in amounts that are not a direct pass-through of costs.

3. For the purpose of this Issue, "shipping" is understood to be those costs that are incurred to physically move the product from the seller's place of business to the buyer's designated location. Shipping costs generally comprise payments to third-party shippers but may also be costs incurred directly by the seller. "Handling" is understood to be those costs incurred to store, move, and prepare the products for shipment. Generally, handling costs are incurred from the point the product is removed from finished goods inventory to the point the product is provided to the shipper and often include an allocation of internal overhead.

4. The issues are:

Issue 1 - How a seller of goods should classify in the income statement amounts billed to a customer for shipping and handling

Issue 2 - How a seller of goods should classify in the income statement costs incurred for shipping and handling.

INT 01-11 Discussion

5. The working group reached a consensus to adopt the consensus positions of *EITF 00-10, Accounting for Shipping and Handling Fees and Costs* (EITF 00-10) with certain modifications. Although the issues raised in EITF 00-10 are not prevalent in the insurance industry, adoption of the consensus position does not violate any of the principles that define the Statement of Concepts. The modified EITF consensus is as follows:

6. The Task Force reached a consensus on Issue 1 that all amounts billed to a customer in a sale transaction related to shipping and handling, if any, represent revenues earned for the goods provided and should be classified as revenue. The Task Force was not asked to reach a consensus on Issue 2.

7. The Task Force reached a consensus that the consensus on Issue 1 should be applied as of January 1, 2001. Upon application of the consensus, comparative financial statements for prior periods should be reclassified to comply with the classification guidelines of this Issue. If it is impracticable to reclassify prior-period financial statements, disclosure should be made of both the reasons why reclassification was not made and the effect of the reclassification on the current period.

INT 01-11 Status

8. No further discussion planned.