

## Case 18-6c

### Logical Logistics Inc.

Logical Logistics Inc. (Logical Logistics or the “Company”) provides transportation and logistics services to customers through a network of offices in North America, South America, and Asia. The Company contracts fleets of shipping vessels, trucks, and aircraft to provide regional, long-haul, and international shipments of a customer’s goods. In addition, the Company contracts warehouse operators across North America for use of its facilities as distribution centers that temporarily store goods in transit. The Company has entered into contracts with the following vendors:

- *See Boat Inc. (See Boat)* — to use its shipping vessels to transport goods from North America to Asia. See Boat has a fleet of 25 multi-use shipping vessels, each of which has the capacity to hold 1,000 shipping containers.
- *Fly-By-Air Inc. (Fly-By-Air)* — to use its aircraft to transport goods from South America to North America. Fly-By-Air has a fleet of 50 multi-use aircraft, each of which has the capacity to hold 500 shipping pallets.
- *Trucking Co. Inc. (Trucking Co.)* — to use its trucks to transport goods from distribution centers to retail stores across North America. Trucking Co. has a fleet of 1,500 multi-use, long-haul trucks, each of which has the capacity to hold 100 shipping pallets.
- *Warehouse Co. Inc. (Warehouse Co.)* — to store up to 18,000 shipping pallets at one of its locations. Warehouse Co. has the capacity to store 20,000 shipping pallets at that location.

The terms of the individual vendor contracts identified above are as follows:

- *See Boat:*
  - The contract term is for the duration of the voyage to transport Logical Logistics’s cargo from Los Angeles to Shanghai. The Company does not have discretion to change the departure or arrival ports without a renegotiation of the contract fees.
  - *SB0829*, a commercial shipping vessel in See Boat’s fleet, is dedicated to delivering Logical Logistics’s cargo for the term of the contract. See Boat cannot substitute *SB0829* with another vessel in its fleet nor can it use *SB0829* to transport goods for other customers.
  - The contract identifies the shipping containers and acceptable cargo (e.g., semiconductors) to be transported on the ship as well as the transportation route. Logical Logistics does not have discretion to change the identified cargo without renegotiating the contract fees.

- See Boat is responsible for the safe passage of the cargo as well as operation and maintenance of *SB0829*. The crew determines the ship's route, speeds, and date of departure from Los Angeles. In addition, Logical Logistics cannot, under any circumstances, replace See Boat's crew.
- *Fly-By-Air*:
  - The contract term is five years.
  - *FBA1231*, a commercial aircraft in Fly-By-Air's fleet, is dedicated to delivering Logical Logistics's shipping pallets during the term of the contract. Fly-By-Air cannot substitute *FBA1231* with another aircraft in its fleet.
  - Logical Logistics determines (1) the departure and arrival airports where goods are shipped and received and (2) the order in which deliveries are made to the airports. Fly-By-Air provides the aircraft's pilot and crew, and Logical Logistics instructs the pilot and crew accordingly.
  - While Logical Logistics determines what cargo will be transported throughout the term of the contract, certain restrictions prevent the Company from shipping flammable materials.
  - Logical Logistics has the right to deploy the aircraft regardless of whether the cargo levels meet the full storage capacity of the aircraft. If *FBA1231* is below capacity, Fly-By-Air cannot use the excess storage space to ship products of its other customers.
- *Trucking Co.*:
  - The contract term is five years.
  - Trucking Co. must deliver Logical Logistics's shipments within three weeks of the Company's notification that it has pallets of customer goods ready for shipping.
  - Trucking Co. may choose any truck from its fleet to fulfill the shipping request.
  - Logical Logistics may request shipment of 25 to 100 shipping pallets of goods in a single request. (Individual shipping requests generally do not exceed 50 shipping pallets.)
  - Trucking Co. has the right to use any excess storage space to ship products of its other customers.
  - Trucking Co. determines the shipment's delivery date (within the three-week period) as well as the shipping route.
- *Warehouse Co.*:
  - The contract term is 10 years.
  - Logical Logistics can store up to 18,000 shipping pallets at one specified Warehouse Co. location. The Company will be charged for storage of 18,000 shipping pallets, regardless of the actual number of pallets stored, and Warehouse Co. cannot use any of Logical Logistics's unused storage space for other storage needs.

- Warehouse Co. can use the remaining space in its warehouse for other storage needs.
- Warehouse Co. cannot relocate Logical Logistics's inventory to another facility.
- Logical Logistics has the right to decide which shipping pallets are placed in storage and when they can be removed.
- Warehouse Co. provides the loading and unloading services for the warehouse activities, both of which are dependent on Logical Logistics's decisions about which shipping pallets are placed in storage and when they can be removed.

The CFO of Logical Logistics recognizes that the leasing standard (ASC 842) contains certain provisions that may affect how the Company treats contracts like these.