

Audit Alert: FASB and IASB discuss principal versus agent analysis

All decisions reached at Board meetings are tentative and may be changed at future meetings. Decisions are included in an Exposure Draft only after a formal written ballot. Decisions reflected in Exposure Drafts are often changed in redeliberations by the Board based on information received in comment letters, at public roundtable discussions, and from other sources. Board decisions become final after a formal written ballot to issue a final Accounting Standards Update.

The FASB and the IASB held a joint videoconference [meeting](#) on June 22 to discuss implementation questions on the principal versus agent guidance in ASC 606 and IFRS 15, both titled *Revenue from Contracts with Customers*, which arose during a meeting of the Joint Transition Resource Group for Revenue Recognition.

The Boards tentatively agreed to propose amendments to ASC 606 and IFRS 15 to clarify the principal versus agent guidance, as summarized below. The Boards reaffirmed that the principal versus agent guidance in ASC 606 and IFRS 15 is based on the principle of control. The Boards tentatively decided to amend the guidance to clarify how to apply the control principle to services performed by another entity. The Boards proposed clarifying that an entity acting as a principal controls a right to a service to be performed by another party, which gives the entity the ability to direct the other party in providing that service to the customer on the entity's behalf in satisfying its performance obligation.

The Boards also tentatively agreed to clarify the unit of account for the principal versus agent evaluation by explaining that a “specified good or service” is a distinct good or service (or a distinct bundle of goods or services). In some circumstances, a “specified good or service” may be a right to an underlying good or service that will be provided by another party.

Finally, the Boards tentatively decided to amend the examples in ASC 606 and IFRS 15 that describe how to apply the principal versus agent guidance and to include additional examples.

See the full article at: <http://www.grantthornton.com/issues/library/newsletters/audit/2015/on-the-horizon/July/July-02.aspx#sthash.X6Di8Z9.dpuf>

Source: Grant Thornton, *On The Horizon*, July 2, 2015

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