

# Audit Alert: Board issues proposed guidance on principal versus agent considerations

## FASB

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The FASB [issued](#) proposed ASU, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which clarifies and enhances the implementation guidance on principal versus agent considerations within ASC 606, Revenue from Contracts with Customers.

Comments are due by October 15.

Under the proposal, when another party is involved in providing goods or services to a customer, an entity should determine whether the nature of its promise is either (1) a performance obligation to provide the specified goods or services itself (that is, the entity is acting as a principal), or (2) an arrangement for the other party to provide those specified goods or services (that is, the entity is acting as an agent). A principal recognizes revenue in the gross amount of consideration to which the entity expects to be entitled in exchange for the specified goods or services, while an agent recognizes revenue in the amount of any fee or commission to which it expects to be entitled for arranging for the good or service to be provided to the customer.

The proposed guidance clarifies that to determine the nature of its promise, an entity should:

1. Identify the specified goods or services to be provided to the customer
2. Assess whether it controls each specified good or service before it is transferred to the customer.

An entity is a principal if it controls the specified good or service before it transfers that good or service to the customer. Under the proposal, a specified good or service is a distinct good or service promised to the customer. Therefore, if a contract includes more than one specified good or service, the entity may be a principal for some specified goods or services and an agent for others.

The proposed ASU would also reframe the indicators of an agent in ASC 606 by providing a list of indicators that the entity is acting as principal. It would also clarify that the indicators' purpose is to support or assist in the control assessment.

Source: Grant Thornton, *On The Horizon*, September 10, 2015

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For assistance in this matter, please contact us via [luiscarlos.marcano@pr.gt.com](mailto:luiscarlos.marcano@pr.gt.com)



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**September 15, 2015**