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Heads Up

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Principal Changes

FASB Proposes Amendments to New Revenue Standard's Guidance on Principal-Versus-Agent Considerations

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Introduction

On August 31, 2015, the FASB issued a proposed ASU[1] that would amend the Board's May 2014 revenue standard[2] (the "new revenue standard") to address issues raised regarding how an entity should assess whether it is the principal or the agent in contracts that include three or more parties ("principal-versus-agent considerations"). In particular, stakeholders have questioned (1) how to determine the unit of account (i.e., whether it should be at the contract level or the performance-obligation level), (2) whether the related indicators in the new revenue standard are intended to assist in a single evaluation of control or represent an additional evaluation, and (3) how certain indicators are related to the new revenue standard's general control principle.

> **Editor's Note:** The amendments outlined in the proposed ASU clarify, rather than change, the core principle of the principal-versus-agent considerations.

This *Heads Up* summarizes the key provisions of the proposed ASU and contains two appendixes. Appendix A lists the proposed ASU's questions for respondents. Appendix B reproduces illustrative examples from the proposed ASU that would amend or supplement the new revenue standard's existing examples.

Comments on the proposed ASU are due by October 15, 2015.

> **Editor's Note:** In July 2015, the IASB issued an exposure draft that includes proposed amendments to the principal-versus-agent guidance and related illustrative examples in IFRS 15,[3] the IASB's counterpart to the FASB's new revenue standard. Such proposed amendments are identical to those in the proposed ASU. Comments on the IASB's exposure draft are due by October 28, 2015.

[1] FASB Proposed Accounting Standards Update, *Revenue From Contracts With Customers (Topic 606): Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)*.
[2] FASB Accounting Standards Update No. 2014-09, *Revenue From Contracts With Customers*.
[3] IFRS 15, *Revenue From Contracts With Customers*.

Analyzing Promises in a Contract With a Customer

The proposed ASU would clarify that an entity should evaluate whether it is the principal or the agent for each specified good or service (i.e., each good or service or bundle of distinct goods or services that is distinct) promised in a contract with a customer. In addition, the proposal would add guidance to help entities determine the nature of promises in a contract. Specifically, the proposed guidance would require an entity to (1) identify the specified goods or services (or bundles of goods or services), including rights to goods or services from a third party, and (2) determine whether it controls each specified good or service (or right to a third-party good or service) before each is transferred to the customer. If the entity controls the specified good or service before transfer, it would be the principal; otherwise, it would be an agent that arranges for another party to provide the specified good or service. Further, the proposed ASU would clarify that an entity may be the principal with respect to certain distinct goods or services in a contract but an agent with respect to others.

Control Considerations

The proposed ASU would add clarifying guidance on the types of goods or services that a principal may control. Specifically, ASC 606-10-55-37A would be added to provide the following guidance:

> When another party is involved in providing goods or services to a customer, an entity that is a principal obtains control of:
>
> a. A good or another asset from the other party that it then transfers to the customer
>
> b. A right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf
>
> c. A good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer. If an entity provides a significant service of integrating goods or services provided by another party into the specified good or service for which the customer has contracted, it controls the specified good or service before that good or service is transferred to the customer. In that case, the entity first obtains control of the good or service from the other party and directs its use to create the combined output that is the specified good or service.

In addition, the proposed ASU would reframe the indicators in the new revenue standard to illustrate when an entity may be acting as a principal instead of when an entity acts as an agent. Further, the proposed ASU would amend each indicator to include explanatory language on how the indicator is related to the control principle. Specifically, the proposed ASU would provide the following indicators of when an entity acts as a principal:

- *"The entity is primarily responsible for fulfilling the promise to provide the specified good or service" to the customer (including responsibility for determining whether the other party's good or service is acceptable)* — The proposed ASU notes that such responsibilities on the part of the entity may demonstrate that the other party to the contract is acting on the entity's behalf.
- *The entity has inventory risk before or after the specified good or service is transferred to the customer* — The proposed ASU further notes, for example, that obtaining (or committing to obtain) the specified good or service before the entity obtains a contract with the customer "may indicate that the entity has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the good or service before it is transferred to the customer."
- *"The entity has discretion in establishing prices for the specified good or service," which may indicate that it had "the ability to direct the use of that good or service" when the contract was negotiated* — However, the proposed ASU notes that an agent may also have discretion in setting prices (e.g., "to generate additional revenue from its service of arranging for goods or services to be provided by other parties to customers").
- *The entity is exposed to credit risk for the amount receivable for the specified good or service transferred to the customer* — The proposed ASU cites an example in which the entity is required to pay the other party in the transaction for a specified good or service to the customer regardless of whether the customer pays the entity. Such a situation may indicate

that the entity is directing the other party to provide the specified good or service to the customer on its behalf. However, the proposed ASU notes that there could be situations in which an agent chooses "to accept credit risk as part of its overall service of arranging for the provision of the specified good or service" to the customer.

The proposed ASU would not give any indicator more weight than others in the assessment of whether the entity is the principal or the agent. However, it states that the control indicators may be more or less relevant to the assessment of control depending on the nature of the specified good or service in a particular contract.

Overview of Illustrative Examples

The proposed ASU would amend certain illustrative examples in the new revenue standard (and adds new ones) to clarify how an entity would assess whether it is the principal or the agent in a revenue transaction. The table below summarizes the amended and new examples proposed. Appendix B reproduces each of the examples from the proposed ASU.

Proposed Example	Nature of Example
Example 45 (amended) — demonstrates that the entity is an agent	In addition to illustrating how an entity would identify the specified goods or services and perform the related control assessment for each, Example 45 as amended would clarify that an entity's consideration of the indicators is complementary to (rather than different or separate from) its assessment of whether it controls the goods or services before they are transferred to the customer.
Example 46 (amended) — demonstrates that the entity is a principal	Like Example 45 in the proposed ASU, Example 46 as amended would illustrate how an entity would identify the specified goods or services and perform the related control assessment for each. Under the proposed ASU, Example 46 would also clarify that an entity may not need to consider the indicators when its evaluation of whether it controls the good or service is conclusive.
Example 46A (new) — demonstrates that the entity is a principal	The proposed ASU would add this example to illustrate how an entity should apply the guidance on principal-versus-agent considerations to a transaction involving services.
Example 47 (amended) — demonstrates that the entity is a principal	The proposed ASU would amend Example 47 to clarify that the nature of the specified good or service to be provided to the customer is a right that the entity controls. As amended, the example would illustrate how an entity should assess whether it controls the specified good or service when that good or service is a right. In addition, the amended example would demonstrate that some, but not all, of the indicators may be relevant to an entity's assessment of whether it controls a right.
Example 48 (amended) — demonstrates that the entity is an agent	Like proposed amended Example 47, Example 48 as amended would illustrate how an entity should apply the guidance on principal-versus-agent considerations when the specified good or service is a right. However, amended Example 48 would highlight when an entity acts as an agent because it does not control the right before transfer to the customer.
Example 48A (new) — demonstrates that the entity is both a principal and an agent in a single contract	This proposed new example would illustrate that there may be more than one specified good or service in a contract and that an entity must assess each specified good or service separately to determine whether it controls each good or service before transfer to the customer. The entity in the proposed example concludes that it is a principal with respect to one of the specified goods or services in the contract and an agent with respect to the other specified good or service.

Appendix A — Questions for Respondents

The proposed ASU's questions for respondents are listed below for reference.

Question 1: The proposed amendments to paragraph 606-10-55-36 clarify the unit of account (the "specified good or service") at which an entity would determine whether it is a principal or an agent and clarify that an entity can be both a principal and an agent in a single contract. Would the proposed amendments improve the operability and understandability of the principal versus agent guidance in Topic 606? If not, please explain why and suggest alternatives.

Question 2: Paragraph 606-10-55-37A clarifies application of the control principle to certain types of arrangements by explaining what a principal controls before the specified good or service is transferred to the customer. Would the proposed amendments improve the operability and understandability of the principal versus agent guidance in Topic 606? If not, please explain why and suggest alternatives.

Question 3: The proposed amendments to paragraph 606-10-55-39 provide indicators of when an entity controls the specified good or service before it is transferred to the customer and, therefore, would be a principal. The amendments also clarify the relationship of each indicator to the control principle in paragraph 606-10-55-37. Paragraph 606-10-55-39A was added to explain that the indicators may be more or less relevant to the principal versus agent assessment depending on the nature of the arrangement and that different indicators may provide more or less persuasive evidence about whether the entity controls the specified good or service before it is transferred to the customer in different contracts. Would the proposed amendments improve the operability and understandability of the principal versus agent guidance in Topic 606? If not, please explain why and suggest alternatives.

Question 4: Would the revisions to the principal versus agent illustrative examples (Examples 45 through 48) and the added illustrative examples (Examples 46A and 48A) improve the operability and understandability of the principal versus agent guidance in Topic 606? If not, please explain why and suggest alternatives.

Appendix B — Illustrative Examples

The following examples are reproduced from the proposed ASU (added text is underlined, and deleted text is ~~struck out~~).

Example 45 — Arranging for the Provision of Goods or Services (Entity Is an Agent)

606-10-55-317 An entity operates a website that enables customers to purchase goods from a range of suppliers who deliver the goods directly to the customers. When a good is purchased via the website, the entity is entitled to a commission that is equal to 10 percent of the sales price. The entity's website facilitates payment between the supplier and the customer at prices that are set by the supplier. The entity requires payment from customers before orders are processed, and all orders are nonrefundable. The entity has no further obligations to the customer after arranging for the products to be provided to the customer.

606-10-55-318 To determine whether the entity's performance obligation is to provide the specified goods itself (that is, the entity is a principal) or to arrange for those goods to be provided by the supplier (that is, the entity is an agent), the entity ~~considers~~ identifies the ~~nature of its promise~~ specified good or service to be provided to the customer and assesses whether it controls that good or service before the good or service is transferred to the customer. ~~Specifically, the entity observes that the supplier of the goods delivers its goods directly to the customer and, thus, the entity does not obtain control of the goods. Instead, the entity's promise is to arrange for the supplier to provide those goods to the customer. In reaching that conclusion the entity considers the following indicators from paragraph 606-10-39 as follows:~~

a. Subparagraph superseded by Accounting Standards Update 2015-XX.~~The supplier is primarily responsible for fulfilling the contract—that is, by shipping the goods to the customer.~~

b. Subparagraph superseded by Accounting Standards Update 2015-XX.~~The entity does not take inventory risk at any time during the transaction because the goods are shipped directly by the supplier to the customer.~~

c. Subparagraph superseded by Accounting Standards Update 2015-XX.~~The entity's consideration is in the form of a commission (10 percent of the sales price).~~

d. Subparagraph superseded by Accounting Standards Update 2015-XX.~~The entity does not have discretion in establishing prices for the supplier's goods and, therefore, the benefit the entity can receive from those goods is limited.~~

e. Subparagraph superseded by Accounting Standards Update 2015-XX.~~Neither the entity nor the supplier has credit risk because payments from customers are made in advance.~~

[Content amended and moved to paragraph 606-10-55-318C]

606-10-55-318A The website operated by the entity is a marketplace in which suppliers offer their goods and customers purchase the goods that are offered. Accordingly, the entity observes that the specified goods to be provided to customers that use the website are the goods provided by the suppliers, and no other promises are made to customers by the entity.

606-10-55-318B The entity concludes that it does not control the specified goods before they are transferred to customers that order goods using the website. The entity does not at any time have the ability to direct the use of the goods transferred to customers. For example, it cannot direct the goods to parties other than the customers or prevent the supplier from transferring those goods to the customers. The entity does not control the suppliers' inventory of goods used to fulfill the orders placed by customers using the website.

606-10-55-318C ~~In~~ As part of reaching that conclusion the entity considers the following indicators ~~from~~ in paragraph 606-10-55-39 ~~as follows~~. The entity concludes that these indicators provide further evidence that it does not control the specified goods before they are transferred to the customers:

a. The supplier is primarily responsible for fulfilling the ~~contract—that is, by shipping the goods to the customer~~ promise to provide the goods to the customer. The entity is neither obliged to provide the goods if the supplier fails to transfer the goods to the customer nor responsible for the acceptability of the goods.

b. The entity does not take inventory risk at any time before or after the goods are transferred ~~during the transaction because the goods are shipped directly by the supplier~~ to the customer. The entity does not commit to obtain the goods from the supplier before the goods are purchased by the customer and does not accept responsibility for any damaged or returned goods.

~~c. The entity's consideration is in the form of a commission (10 percent of the sales price).~~

c.~~d.~~The entity does not have discretion in establishing prices for the supplier's goods ~~and, therefore, the benefit the entity can receive from those goods is limited~~. The sales price is set by the supplier.

~~e. Neither the entity nor the supplier has credit risk because payments from customers are made in advance.~~

[Content amended as shown and moved from paragraph 606-10-55-318]

606-10-55-319 Consequently, the entity concludes that it is an agent and its performance obligation is to arrange for the provision of goods by the supplier. When the entity satisfies its promise to arrange for the goods to be provided by the supplier to the customer (which, in this example, is when goods are purchased by the customer), the entity recognizes revenue in the amount of the commission to which it is entitled.

Example 46 — Promise to Provide Goods or Services (Entity Is a Principal)

606-10-55-320 An entity enters into a contract with a customer for equipment with unique specifications. The entity and the customer develop the specifications for the equipment, which the entity communicates to a supplier that the entity contracts with to manufacture the equipment. The entity also arranges to have the supplier deliver the equipment directly to the customer. Upon delivery of the equipment to the customer, the terms of the contract require the entity to pay the supplier the price agreed to by the entity and the supplier for manufacturing the equipment.

606-10-55-321 The entity and the customer negotiate the selling price, and the entity invoices the customer for the agreed-upon price with 30-day payment terms. The entity's profit is based on the difference between the sales price negotiated with the customer and the price charged by the supplier.

606-10-55-322 The contract between the entity and the customer requires the customer to seek remedies for defects in the equipment from the supplier under the supplier's warranty. However, the entity is responsible for any corrections to the equipment required resulting from errors in specifications.

606-10-55-323 To determine whether the entity's performance obligation is to provide the specified goods or services itself (that is, the entity is a principal) or to arrange for ~~another party to provide~~ those goods or services to be provided by another party (that is, the entity is an agent), the entity ~~considers the nature of its promise~~ identifies the specified good or service to be provided to the customer and assesses whether it controls that good or service before the good or service is transferred to the customer. T~~he entity has promised to provide the customer with specialized equipment; however, the entity has subcontracted the manufacturing of the equipment to the supplier. In determining whether the entity obtains control of the equipment before control transfers to the customer and whether the entity is a principal, the entity considers the indicators in paragraph 606-10-55-39 as follows:~~

a. Subparagraph superseded by Accounting Standards Update No 2015-XX.~~The entity is primarily responsible for fulfilling the contract. Although the entity subcontracted the manufacturing, the entity is ultimately responsible for ensuring that the equipment meets the specifications for which the customer has contracted.~~

b. Subparagraph superseded by Accounting Standards Update No 2015-XX.~~The entity has inventory risk because of its responsibility for corrections to the equipment resulting from errors in specifications, even though the supplier has inventory risk during production and before shipment.~~

c. Subparagraph superseded by Accounting Standards Update No 2015-XX.~~The entity has discretion in establishing the selling price with the customer, and the profit earned by the entity is an amount that is equal to the difference between the selling price negotiated with the customer and the amount to be paid to the supplier.~~

d. Subparagraph superseded by Accounting Standards Update No 2015-XX.~~The entity's consideration is not in the form of a commission.~~

e. Subparagraph superseded by Accounting Standards Update No 2015-XX.~~The entity has credit risk for the amount receivable from the customer in exchange for the equipment.~~

606-10-55-323A The entity concludes that it has promised to provide the customer with specialized equipment. Although the entity has subcontracted the manufacturing of the equipment to the supplier, the entity concludes that the development of the specifications and the manufacturing of the equipment are not distinct because they are not separately identifiable (that is, there is a single performance obligation). The entity is responsible for the overall management of the contract and, thus, provides a significant service of integrating those items into the combined output—the specialized equipment—for which the customer has contracted. In addition, these activities are highly interrelated; for example, if necessary modifications to the specifications are identified as the equipment is manufactured, the entity is responsible for communicating revisions to the supplier and for ensuring that any associated rework required conforms with the revised specifications. Accordingly, the entity identifies the specified good to be provided to the customer as the specialized equipment.

606-10-55-323B The entity concludes that it controls the specialized equipment before that equipment is transferred to the customer in accordance with paragraph 606-10-55-37A(c). The entity provides the significant integration service necessary to produce the specialized equipment and, therefore, controls the specialized equipment before it is transferred to the customer. The entity directs the use of the supplier's manufacturing service in creating the combined output that is the specialized equipment. In reaching the conclusion that it controls the specialized equipment before it is transferred to the customer, the entity also observes that even though the supplier delivers the specialized equipment to the customer, the supplier has no ability to direct its use (that is, the supplier cannot decide to use the specialized equipment for another purpose or direct that equipment to another customer). The terms of the entity's contract with the supplier prevent the supplier from directing the use of the specialized equipment by specifying that the equipment must be delivered to the customer. The entity also obtains the remaining benefits from the specialized equipment by being entitled to the consideration in the contract from the customer.

606-10-55-324 ~~The entity concludes that its promise is to provide the equipment to the customer. On the basis of the indicators in paragraph 606-10-55-39, the entity concludes that it controls the equipment before it is transferred to the customer.~~ Thus, the entity concludes that it is a principal in the transaction. The entity does not consider the indicators in paragraph 606-10-55-39 because the evaluation above is conclusive without consideration of the indicators. ~~and~~ The entity recognizes revenue in the gross amount of consideration to which it is entitled from the customer in exchange for the specialized equipment.

Example 46A — Promise to Provide Goods or Services (Entity Is a Principal)

606-10-55-324A An entity enters into a contract with a customer to provide office maintenance services. The entity and the customer define and agree on the scope of the services and negotiate the price. The entity is responsible for ensuring that the services are performed in accordance with the terms and conditions in the contract. The entity invoices the customer for the agreed-upon price on a monthly basis with 10-day payment terms.

606-10-55-324B The entity regularly engages third-party service providers to provide office maintenance services to its customers. When the entity obtains a contract from a customer, the entity in turn enters into a contract with one of those service providers directing the service provider to perform office maintenance services for the customer. The payment terms in the contracts with the service providers generally are aligned with the payment terms in the entity's contracts with customers. However, the entity is obliged to pay the service provider even if the customer fails to pay for any reason.

606-10-55-324C To determine whether the entity is a principal or an agent, the entity identifies the specified good or service to be provided to the customer and assesses whether it controls that good or service before the good or service is transferred to the customer.

606-10-55-324D The entity observes that the specified services to be provided to the customer are the office maintenance services and that no other promises are made to the customer.

606-10-55-324E The entity concludes that it obtains control of the right to those services (which will be performed by the service provider) before those services are provided to the customer. The terms of the entity's contract with the service provider give the entity the ability to direct the service provider to provide the specified services on the entity's behalf. In addition, the entity concludes that the following indicators in paragraph 606-10-55-39 provide further evidence that the entity controls the office maintenance services before they are provided to the customer:

a. The entity is primarily responsible for fulfilling the promise to provide office maintenance services. Although the entity has subcontracted the services to the service provider, the entity is responsible for the acceptability of the services (that is, the entity is responsible for fulfilment of the promise in the contract, regardless of whether the entity performs the services itself or engages a third-party service provider to perform the services).

b. The entity has discretion in setting the price for the services to the customer.

c. The entity has credit risk for the amount receivable from the customer in exchange for the office maintenance services. The entity is required to pay the service provider regardless of whether it obtains payment from the customer.

606-10-55-324F The entity observes that it does not commit to obtain the services from the service provider before obtaining the contract with the customer, nor does it maintain available resources to provide maintenance services (for example, staff, equipment, or supplies). Thus, the entity does not have inventory risk with respect to the office maintenance services. Nonetheless, the entity concludes that it controls the office maintenance services before they are provided to the customer on the basis of the evidence in paragraph 606-10-55-324E.

606-10-55-324G Thus, the entity is a principal in the transaction and recognizes revenue in the amount of consideration to which it is entitled from the customer in exchange for the office maintenance services.

Example 47 — Promise to Provide Goods or Services (Entity Is a Principal)

606-10-55-325 An entity negotiates with major airlines to purchase tickets at reduced rates compared with the price of tickets sold directly by the airlines to the public. The entity agrees to buy a specific number of tickets and must pay for those tickets regardless of whether it is able to resell them. The reduced rate paid by the entity for each ticket purchased is negotiated and agreed in advance.

606-10-55-326 The entity determines the prices at which the airline tickets will be sold to its customers. The entity sells the tickets and collects the consideration from customers when the tickets are purchased; therefore, there is no credit risk.

606-10-55-327 The entity also assists the customers in resolving complaints with the service provided by the airlines. However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.

606-10-55-328 To determine whether the entity's performance obligation is to provide the specified goods or services itself (that is, the entity is a principal) or to arrange for ~~another party to provide~~ those goods or services to be provided by another party (that is, the entity is an agent), the entity ~~considers the nature of its promise~~ identifies the specified good or service to be provided to the customer and assesses whether it controls that good or service before the good or service is transferred to the customer. ~~The entity determines that its promise is to provide the customer with a ticket, which provides the right to fly on the specified flight or another flight if the specified flight is changed or cancelled. In determining whether the entity obtains control of the right to fly before control transfers to the customer and whether the entity is a principal, the entity considers the indicators in paragraph 606-10-55-39 as follows:~~

a. Subparagraph superseded by Accounting Standards Update 2015-XX. ~~The entity is primarily responsible for fulfilling the contract, which is providing the right to fly. However, the entity is not responsible for providing the flight itself, which will be provided by the airline.~~

b. Subparagraph superseded by Accounting Standards Update 2015-XX. ~~The entity has inventory risk for the tickets because they are purchased before they are sold to the entity's customers and the entity is exposed to any loss as a result of not being able to sell the tickets for more than the entity's cost.~~

c. Subparagraph superseded by Accounting Standards Update 2015-XX. ~~The entity has discretion in setting the sales prices for tickets to its customers.~~

d. Subparagraph superseded by Accounting Standards Update 2015-XX. ~~As a result of the entity's ability to set the sales prices, the amount that the entity earns is not in the form of a commission but, instead, depends on the sales price it sets and the costs of the tickets that were negotiated with the airline.~~

606-10-55-328A The entity concludes that with each ticket that it commits to purchase from the airline, it obtains control of a right to fly on a specified flight (in the form of a ticket) that the entity then transfers to its customers. Consequently, the entity determines that the specified good or service to be provided to the customer is that right that the entity controls. The entity observes that no other promises are made to the customer.

606-10-55-328B The entity controls the right to each flight before it transfers that right to one of its customers because the entity has the ability to direct the use of those rights by deciding whether to use the tickets to fulfill contracts with customers and, if so, which contracts they will fulfill. The entity also has the ability to obtain the remaining benefits from those rights by either reselling the tickets and obtaining all of the proceeds from those sales or, alternatively, using the tickets itself.

606-10-55-328C The indicators in paragraph 606-10-55-39(b) through 55-39(c) also provide evidence that the entity controls the right to each flight before that right is transferred to the customer. The entity has inventory risk with respect to the tickets because the entity committed to obtain the tickets from the airlines before obtaining a contract with a customer to purchase the tickets. Accordingly, the entity is obliged to pay the airlines for those rights regardless of whether it is able to obtain customers to resell those tickets to or whether it can obtain a favorable price for those tickets. The entity also establishes the price that its customers will pay for the tickets.

606-10-55-329 ~~The entity concludes that its promise is to provide a ticket (that is, a right to fly) to the customer. On the basis of the indicators in paragraph 606-10-55-39, the entity concludes that it controls the ticket before it is transferred to the customer.~~ Thus, the entity concludes that it is a principal in the ~~transaction~~ transactions with customers. The entity ~~and~~ recognizes revenue in the gross amount of consideration to which it is entitled in exchange for the tickets transferred to the customers.

Example 48 — Arranging for the Provision of Goods or Services (Entity Is an Agent)

606-10-55-330 An entity sells vouchers that entitle customers to future meals at specified restaurants. These vouchers are sold by the entity, and the sales price of the voucher provides the customer with a significant discount when compared with the normal selling prices of the meals (for example, a customer pays $100 for a voucher that entitles the customer to a meal at a restaurant that would otherwise cost $200). The entity does not purchase vouchers in advance; instead, it purchases vouchers only as they are requested by the customers. The entity sells the vouchers through its website, and the vouchers are nonrefundable.

606-10-55-331 The entity and the restaurants jointly determine the prices at which the vouchers will be sold to customers. The entity is entitled to 30 percent of the voucher price when it sells the voucher. The entity has no credit risk because the customers pay for the vouchers when purchased.

606-10-55-332 The entity also assists the customers in resolving complaints about the meals and has a buyer satisfaction program. However, the restaurant is responsible for fulfilling obligations associated with the voucher, including remedies to a customer for dissatisfaction with the service.

606-10-55-333 To determine whether the entity is a principal or an agent, the entity ~~considers the nature of its promise and whether it takes control of the voucher (that is, a right) before control transfers to the customer~~ identifies the specified good or service to be provided to the customer and assesses whether it controls the specified good or service before that good or service is transferred to the customer. ~~In making this determination, the entity considers the indicators in paragraph 606-10-55-39 as follows:~~

a. Subparagraph superseded by Accounting Standards Update 2015-XX. ~~The entity is not responsible for providing the meals itself, which will be provided by the restaurants.~~

b. Subparagraph superseded by Accounting Standards Update 2015-XX. ~~The entity does not have inventory risk for the vouchers because they are not purchased before being sold to customers and the vouchers are nonrefundable.~~

c. Subparagraph superseded by Accounting Standards Update 2015-XX. ~~The entity has some discretion in setting the sales prices for vouchers to customers, but the sales prices are jointly determined with the restaurants.~~

d. Subparagraph superseded by Accounting Standards Update 2015-XX. ~~The entity's consideration is in the form of a commission, because it is entitled to a stipulated percentage (30 percent) of the voucher price.~~

606-10-55-333A The entity observes that the specified good or service to be provided to the customer is the right to a meal (in the form of a voucher) at a specified restaurant or restaurants, which the customer can use itself or transfer to another person. The entity also observes that no other promises are made to the customer.

606-10-55-333B The entity concludes that it does not control the right to the meal before that right is transferred to the customer. In reaching this conclusion, the entity principally considers the following:

a. The vouchers are created only at the time that they are transferred to the customers and, thus, do not exist before that transfer. Therefore, the entity does not at any time have the ability to direct the use of the vouchers or obtain substantially all of the remaining benefits from the vouchers before they are transferred to customers.

b. The entity neither purchases nor commits to purchase vouchers before they are sold to customers. The entity also has no responsibility to accept any returned vouchers. Therefore, the entity does not have inventory risk with respect to the vouchers as described in paragraph 606-10-55-39(b).

c. The entity does not provide a customer with the right to a meal and, then, contract with a restaurant to fulfill the entity's promise to provide that meal. Customers obtain vouchers for specific meals from restaurants that they select. In other words, the entity is not engaging the restaurants to provide a service of serving meals to customers on the entity's behalf as described in paragraph 606-10-55-39(a).

606-10-55-334 ~~The entity concludes that its promise is to arrange for goods or services to be provided to customers (the purchasers of the vouchers) in exchange for a commission. On the basis of the indicators in paragraph 606-10-55-39, the entity concludes that it does not control the vouchers that provide a right to meals before they are transferred to the customers.~~ Thus, the entity concludes that it is an agent in the arrangement. The entity ~~and~~ recognizes revenue in the net amount of consideration to which the entity will be entitled in exchange for ~~the service~~ arranging for the restaurants to provide vouchers to customers for the restaurants' meals, which is the 30 percent commission it is entitled to upon the sale of each voucher.

Example 48A — Entity Is a Principal and an Agent in the Same Contract

606-10-55-334A An entity sells services to assist its customers in more effectively targeting potential recruits for open job positions. As part of the contract with a customer, the customer agrees to obtain a license to access a third party's database of information on potential recruits. The entity arranges for this license with the third party, but the customer contracts directly with the database provider for the license. The entity collects payment on behalf of the third-party database provider as part of its overall invoicing to the customer. The database provider sets the price to the customer for the license and is responsible for providing technical support with the online application and providing credits to which the customer may be entitled for service down-time or other technical issues.

606-10-55-334B To determine whether the entity is a principal or an agent, the entity identifies the specified goods or services to be provided to the customer and assesses whether it controls those goods or services before they are transferred to the customer.

606-10-55-334C For the purpose of this Example, it is assumed that the entity concludes that its recruitment services and the database access are two distinct goods or services on the basis of its assessment of the guidance in paragraphs 606-10-25-19 through 25-22. Accordingly, the specified goods or services to be provided to the customer are access to the third party's database and recruitment services.

606-10-55-334D The entity concludes that it does not control the access to the database before it is provided to the customer. The entity does not at any time have the ability to direct the use of the license because the customer contracts for the license directly with the database provider. The entity does not control access to the provider's database—it cannot, for example, grant access to the database to a party other than the customer or prevent the database provider from providing access to the customer.

606-10-55-334E As part of reaching that conclusion, the entity also considers the following indicators in paragraph 606-10-55-39. The entity concludes that these indicators provide further evidence that it does not control access to the database before that access is provided to the customer:

a. The entity is not responsible for fulfilling the promise to provide the database access service. The customer contracts for the license directly with the third-party database provider, and the database provider is responsible for the acceptability of the database access (for example, by providing technical support or service credits).

b. The entity does not have inventory risk because it does not purchase or commit to purchase, the database access before the customer contracts for database access directly with the database provider, and it does not maintain the resources necessary to provide the database access.

c. The entity does not have discretion in setting the price for the database access with the customer because the database provider sets that price.

606-10-55-334F Thus, the entity concludes that it is an agent in relation to the third-party's database service. In contrast, the entity concludes that it is the principal in relation to the recruitment services because the entity performs those services itself and no other party is involved in providing them to the customer.

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