

FINANCIAL ACCOUNTING SERIES



ACCOUNTING STANDARDS UPDATE

No. 2016-08
March 2016

Revenue from Contracts with Customers (Topic 606)

Principal versus Agent Considerations
(Reporting Revenue Gross versus Net)

An Amendment of the *FASB Accounting Standards Codification*®

Financial Accounting Standards Board

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Summary

Why Is the FASB Issuing This Accounting Standards Update (Update)?

On May 28, 2014, the FASB and the International Accounting Standards Board (IASB) issued a converged standard on recognition of revenue from contracts with customers. In June 2014, the FASB and the IASB (collectively, the Boards) announced the formation of the FASB-IASB Joint Transition Resource Group for Revenue Recognition (TRG). One of the objectives of the TRG is to inform the Boards about potential implementation issues that could arise when organizations implement the new revenue standard. The TRG also helps stakeholders to better understand specific aspects of the new revenue standard. The TRG does not issue authoritative guidance. Instead, the Boards evaluate the feedback received from the TRG and other stakeholders to determine what action, if any, is necessary for each potential implementation issue.

An issue discussed by the TRG relates to when another party, along with the entity, is involved in providing a good or a service to a customer. In those circumstances, Topic 606 requires the entity to determine whether the nature of its promise is to provide that good or service to the customer (that is, the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (that is, the entity is an agent). This determination is based upon whether the entity controls the good or the service before it is transferred to the customer. Topic 606 includes indicators to assist in this evaluation.

Discussions at TRG meetings informed the Board about implementation issues related to the guidance on principal versus agent considerations, including:

1. Identifying the unit of account at which an entity should assess whether it is a principal or an agent
2. Identifying the nature of the good or the service provided to the customer (for example, whether it is a good, a service, or a right to a good or service)
3. Applying the control principle to certain types of transactions, such as service arrangements
4. Interaction of the control principle with the indicators provided to assist in the principal versus agent evaluation.

To address those issues, the Board decided to add a project to its technical agenda to improve Topic 606 by reducing:

1. The potential for diversity in practice arising from inconsistent application of the principal versus agent guidance

2. The cost and complexity of applying Topic 606 both at transition and on an ongoing basis.

Who Is Affected by the Amendments in This Update?

The amendments in this Update affect entities with transactions included within the scope of Topic 606. The scope of that Topic includes entities that enter into contracts with customers to transfer goods or services (that are an output of the entity's ordinary activities) in exchange for consideration.

What Are the Main Provisions?

The core principle of the guidance in Topic 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

1. Identify the contract(s) with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The amendments in this Update do not change the core principle of the guidance. The amendments clarify the implementation guidance on principal versus agent considerations.

When another party is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is to provide the specified good or service itself (that is, the entity is a principal) or to arrange for that good or service to be provided by the other party (that is, the entity is an agent). When (or as) an entity that is a principal satisfies a performance obligation, the entity recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred to the customer. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified good or service to be provided by the other party.

An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customer. The indicators do not override the assessment of

control, should not be viewed in isolation, do not constitute a separate or additional evaluation, and should not be considered a checklist of criteria to be met in all scenarios. Considering one or more of the indicators often will be helpful in determining whether the entity controls the specified good or service before it is transferred to the customer. Depending on the facts and circumstances, the indicators may be more or less relevant to the assessment of control. Additionally, one or more of the indicators may be more persuasive to the assessment than the other indicators.

The amendments in this Update are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations by clarifying the following:

1. An entity determines whether it is a principal or an agent for each specified good or service promised to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer. If a contract with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.
2. An entity determines the nature of each specified good or service (for example, whether it is a good, a service, or a right to a good or service).
3. 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 that will be performed by another party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf; or (c) a good or service from the other party that it combines with other goods or services to provide the specified good or service to the customer.
4. The purpose of the indicators in paragraph 606-10-55-39 is to support or assist in the assessment of control. The amendments in paragraph 606-10-55-39A clarify that the indicators may be more or less relevant to the control assessment and that one or more indicators may be more or less persuasive to the control assessment, depending on the facts and circumstances.

Existing illustrative examples (Examples 45 and 46 in paragraphs 606-10-55-317 through 55-324 and Examples 47 and 48 in paragraphs 606-10-55-325 through 55-334) have been amended to clarify how to apply the implementation guidance on principal versus agent considerations. Additional illustrative examples (Example 46A in paragraphs 606-10-55-324A through 55-324G and Example 48A in paragraphs 606-10-55-334A through 55-334F) have been included to further assist stakeholders in applying the guidance.

When Will the Amendments Be Effective?

The amendments in this Update affect the guidance in Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which is not yet effective. The effective date and transition requirements for the amendments in this Update are the same as the effective date and transition requirements of Update 2014-09. Accounting Standards Update No. 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, defers the effective date of Update 2014-09 by one year.

How Do the Provisions Compare with International Financial Reporting Standards (IFRS)?

Topic 606 and IFRS 15, *Revenue from Contracts with Customers*, created common revenue recognition guidance for GAAP and IFRS and are the result of a joint project between the FASB and the IASB. The amendments to the principal versus agent considerations implementation guidance in this Update are the same as the amendments the IASB decided to make to its principal versus agent considerations application guidance in its forthcoming final standard, *Clarifications to IFRS 15*. Accordingly, the FASB's and the IASB's amendments to the guidance on principal versus agent considerations remain converged.

Amendments to the *FASB Accounting Standards Codification*[®]

Introduction

1. The Accounting Standards Codification is amended as described in paragraphs 2–6. In some cases, to put the change in context, not only are the amended paragraphs shown but also the preceding and following paragraphs. Terms from the Master Glossary are in **bold** type. Added text is underlined, and deleted text is ~~struck out~~.

Amendments to Section 606-10-55

2. Amend paragraphs 606-10-55-36 through 55-40 and add paragraphs 606-10-55-36A, 606-10-55-37A through 55-37B, and 606-10-55-39A, with a link to transition paragraph 606-10-65-1, as follows:

Revenue from Contracts with Customers—Overall

Implementation Guidance and Illustrations

> Implementation Guidance

> > Principal versus Agent Considerations

606-10-55-36 When another party is involved in providing goods or services to a **customer**, the entity should determine whether the nature of its promise is a **performance obligation** to provide the specified goods or services itself (that is, the entity is a principal) or to arrange for those goods or services to be provided by the other party ~~to provide those goods or services~~ (that is, the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the customer. A specified good or service is a distinct good or service (or a distinct bundle of goods or services) to be provided to the customer (see paragraphs 606-10-25-19 through 25-22). If a **contract** with a customer includes more than one specified good or service, an entity could be a principal for some specified goods or services and an agent for others.

606-10-55-36A To determine the nature of its promise (as described in paragraph 606-10-55-36), the entity should:

- a. Identify the specified goods or services to be provided to the customer (which, for example, could be a right to a good or service to be provided by another party [see paragraph 606-10-25-18])

- b. Assess whether it controls (as described in paragraph 606-10-25-25) each specified good or service before that good or service is transferred to the customer.

606-10-55-37 An entity is a principal if ~~the entity~~ it controls ~~a promised~~ the specified good or service before ~~the entity transfers the~~ that good or service is transferred to a customer. However, an entity ~~does~~ is not necessarily ~~acting as a principal~~ control a specified good if the entity obtains legal title ~~of a product to that good~~ only momentarily before legal title is transferred to a customer. An entity that is a principal ~~in a contract~~ may satisfy a its performance obligation ~~by to provide the specified good or service itself or it may engage another party (for example, a subcontractor) to satisfy some or all of a the performance obligation on its behalf. When an entity that is a principal satisfies a performance obligation, the entity recognizes revenue in the gross amount of considerations to which it expects to be entitled in exchange for those goods or services transferred.~~ **[Content amended and moved to paragraph 606-10-55-37B]**

606-10-55-37A When another party is involved in providing goods or services to a customer, an entity that is a principal obtains control of any one of the following:

- 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. For example, if an entity provides a significant service of integrating goods or services (see paragraph 606-10-25-21(a)) provided by another party into the specified good or service for which the customer has contracted, the entity controls the specified good or service before that good or service is transferred to the customer. This is because the entity first obtains control of the inputs to the specified good or service (which include goods or services from other parties) and directs their use to create the combined output that is the specified good or service.

606-10-55-37B When (or as) an entity that is a principal satisfies a performance obligation, the entity recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service these goods or services transferred. **[Content amended as shown and moved from paragraph 606-10-55-37]**

606-10-55-38 An entity is an agent if the entity's performance obligation is to arrange for the provision of the specified good ~~goods~~ or service ~~services~~ by another party. An entity that is an agent does not control the specified good or service provided by another party before that good or service is transferred to the

customer. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the other party to provide its the specified goods or services to be provided by the other party. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

606-10-55-39 Indicators that an entity is an agent (and therefore does not control controls the specified good or service before it is provided transferred to the customer a customer) (and is therefore a principal [see paragraph 606-10-55-37]) include, but are not limited to, the following:

- a. Another party The entity is primarily responsible for fulfilling the contract promise to provide the specified good or service. This typically includes responsibility for the acceptability of the specified good or service (for example, primary responsibility for the good or service meeting customer specifications). If the entity is primarily responsible for fulfilling the promise to provide the specified good or service, this may indicate that the other party involved in providing the specified good or service is acting on the entity's behalf.
- b. The entity does not have has inventory risk before or after the goods the specified good or service have has been ordered by transferred to a customer, during shipping, or on return after transfer of control to the customer (for example, if the customer has a right of return). For example, if the entity obtains, or commits to obtain, the specified good or service before obtaining a contract with a customer, that 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.
- c. The entity does not have has discretion in establishing the prices price for the other party's goods or services and, therefore, the benefit that the entity can receive from those goods or services is limited specified good or service. Establishing the price that the customer pays for the specified good or service may indicate that the entity has the ability to direct the use of that good or service and obtain substantially all of the remaining benefits. However, an agent can have discretion in establishing prices in some cases. For example, an agent may have some flexibility in setting prices in order to generate additional revenue from its service of arranging for goods or services to be provided by other parties to customers.
- d. Subparagraph superseded by Accounting Standards Update No. 2016-08. The entity's consideration is in the form of a commission.
- e. Subparagraph superseded by Accounting Standards Update No. 2016-08. The entity is not exposed to credit risk for the amount receivable from a customer in exchange for the other party's goods or services.

606-10-55-39A The indicators in paragraph 606-10-55-39 may be more or less relevant to the assessment of control depending on the nature of the specified good or service and the terms and conditions of the contract. In addition, different indicators may provide more persuasive evidence in different contracts.

606-10-55-40 If another entity assumes the entity's performance obligations and contractual rights in the contract so that the entity is no longer obliged to satisfy the performance obligation to transfer the ~~promised~~ specified good or service to the customer (that is, the entity is no longer acting as the principal), the entity should not recognize revenue for that performance obligation. Instead, the entity should evaluate whether to recognize revenue for satisfying a performance obligation to obtain a contract for the other party (that is, whether the entity is acting as an agent).

3. Amend paragraph 606-10-55-93(p), with a link to transition paragraph 606-10-65-1, as follows:

> Illustrations

606-10-55-93 The Examples are organized as follows:

p. Principal versus Agent Considerations

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

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

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

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

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

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

4. Amend paragraphs 606-10-55-316 through 55-318, 606-10-55-323 through 55-324, 606-10-55-326 through 55-331, and 606-10-55-333 through 55-334 and add paragraphs 606-10-55-318A through 55-318C, 606-10-55-323A through 55-323B, 606-10-55-324A through 55-324G and their related heading, 606-10-55-328A through 55-328C, 606-10-55-333A through 55-333B, and 606-10-55-334A through 55-334F and their related heading, with a link to transition paragraph 606-10-65-1, as follows:

> > Principal versus Agent Considerations

606-10-55-316 Examples 45–48A48 illustrate the guidance in paragraphs 606-10-55-36 through 55-40 on principal versus agent considerations.

> > > 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. ~~Under the terms of the entity's contracts with suppliers, when~~ 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 ~~the supplier to provide those goods~~ (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 606-10-55-39 as follows:~~

- a. ~~Subparagraph superseded by Accounting Standards Update No. 2016-08. 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 No. 2016-08. 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 No. 2016-08. The entity's consideration is in the form of a commission (10 percent of the sales price).~~
- d. ~~Subparagraph superseded by Accounting Standards Update No. 2016-08. 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 No. 2016-08. 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 by the suppliers. 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 goods or services are promised 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 customer or prevent the supplier from transferring those goods to the customer. 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, ~~conclusion~~ the entity considers the following indicators from in paragraph 606-10-55-39. ~~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).~~
- d. ~~c.~~ 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. The 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. 2016-08. 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. 2016-08. 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. 2016-08. 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. 2016-08. The entity's consideration is not in the form of a commission.
- e. Subparagraph superseded by Accounting Standards Update No. 2016-08. 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 designed by the entity. Although the entity has subcontracted the manufacturing of the equipment to the supplier, the entity concludes that the design and 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 (for example, by ensuring that the manufacturing service conforms to the specifications) 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, those activities are highly interrelated. If necessary modifications to the specifications are identified as the equipment is manufactured, the entity is responsible for developing and 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 (see 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 as an input in creating the combined output that is the specialized equipment. In reaching the conclusion that it controls the specialized equipment before that equipment 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 terms of the contract between the entity and the supplier preclude the supplier from using the specialized equipment for another purpose or directing that equipment to another 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 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.

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 for which the customer contracted and that no other goods or services are promised to the customer. While the entity obtains a right to office maintenance services from the service provider after entering into the contract with the customer, that right is not transferred to the customer. That is, the entity retains the ability to direct the use of, and obtain substantially all the remaining benefits from, that right. For example, the entity can decide whether to direct the service provider to provide the office maintenance services for that customer, or for another customer, or at its own facilities. The customer does not have a right to direct the service provider to perform services that the entity has not agreed to provide. Therefore, the right to office maintenance services obtained by the entity from the service provider is not the specified good or service in its contract with the customer.

606-10-55-324E The entity concludes that it controls the specified services before they are provided to the customer. The entity obtains control of a right to office maintenance services after entering into the contract with the customer but 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 (see paragraph 606-10-55-37A(b)). 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 hired a service provider to perform the services promised to the customer, it is the entity itself that is responsible for ensuring that the services are performed and are acceptable to the customer (that is, the entity is responsible for fulfillment 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.

606-10-55-324F The entity observes that it does not commit itself to obtain the services from the service provider before obtaining the contract with the customer. Thus, the entity has mitigated its 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 No. 2016-08. 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 No. 2016-08. 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 No. 2016-08. The entity has discretion in setting the sales prices for tickets to its customers.
- d. Subparagraph superseded by Accounting Standards Update No. 2016-08. 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 itself 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 one of its customers (see paragraph 606-10-55-37A(a)). Consequently, the entity determines that the specified good or service to be provided to its customer is that right (to a seat on a specific flight) that the entity controls. The entity observes that no other goods or services are promised to the customer.

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

606-10-55-328C The indicators in paragraph 606-10-55-39(b) through (c) also provide relevant evidence that the entity controls each specified right (ticket) before it is transferred to the customer. The entity has inventory risk with respect to the ticket because the entity committed itself to obtain the ticket from the airline before obtaining a contract with a customer to purchase the ticket. This is

because the entity is obliged to pay the airline for that right regardless of whether it is able to obtain a customer to resell the ticket to or whether it can obtain a favorable price for the ticket. The entity also establishes the price that the customer will pay for the specified ticket.

~~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 606-10-55-30, ~~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 or commit itself to purchase vouchers in advance of the sale of a voucher to a customer; 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~~ Under the terms of its contracts with the restaurants, 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 606-10-55-30 as follows:~~

- a. ~~Subparagraph superseded by Accounting Standards Update No. 2016-08. The entity is not responsible for providing the meals itself, which will be provided by the restaurants.~~

- b. ~~Subparagraph superseded by Accounting Standards Update No. 2016-08. 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 No. 2016-08. 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 No. 2016-08. 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 ~~A customer obtains a voucher for the restaurant that it selects. The entity does not engage the restaurants to provide meals to customers on the entity's behalf as described in the indicator in paragraph 606-10-55-39(a). Therefore, 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 purchases and then can use itself or transfer to another person. The entity also observes that no other goods or services (other than the vouchers) are promised to the customers.~~

606-10-55-333B ~~The entity concludes that it does not control the voucher (right to a meal) at any time. 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 itself 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 the indicator in paragraph 606-10-55-39(b).~~

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 with respect to the vouchers. 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. The entity performs several services itself, such as interviewing candidates and performing background checks. 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 charged to the customer for the license and is responsible for providing technical support and 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 license are each distinct on the basis of its assessment of the guidance in paragraphs 606-10-25-19 through 25-22. Accordingly, there are two specified goods or services to be provided to the customer—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 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.

- 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 those services to the customer.

Amendments to Section 606-10-65

5. Amend paragraph 606-10-65-1 and its related heading as follows:

> Transition Related to Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and Accounting Standards Update No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*

606-10-65-1 The following represents the transition and effective date information related to Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and Accounting Standards Update No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*:

[The remainder of this paragraph is not shown here because it is unchanged.]

Amendments to the Status Section

6. Amend paragraph 606-10-00-01, by adding the following items to the table, as follows:

606-10-00-01 The following table identifies the changes made to this Subtopic.

Paragraph	Action	Accounting Standards Update	Date
606-10-55-36	Amended	2016-08	03/17/2016
606-10-55-36A	Added	2016-08	03/17/2016
606-10-55-37	Amended	2016-08	03/17/2016
606-10-55-37A	Added	2016-08	03/17/2016
606-10-55-37B	Added	2016-08	03/17/2016
606-10-55-38	Amended	2016-08	03/17/2016

606-10-55-39	Amended	2016-08	03/17/2016
606-39-55-39A	Added	2016-08	03/17/2016
606-10-55-40	Amended	2016-08	03/17/2016
606-10-55-93	Amended	2016-08	03/17/2016
606-10-55-316 through 55-318	Amended	2016-08	03/17/2016
606-10-55-318A through 55-318C	Added	2016-08	03/17/2016
606-10-55-323	Amended	2016-08	03/17/2016
606-10-55-323A	Added	2016-08	03/17/2016
606-10-55-323B	Added	2016-08	03/17/2016
606-10-55-324	Amended	2016-08	03/17/2016
606-10-55-324A through 55-324G	Added	2016-08	03/17/2016
606-10-55-326 through 55-328	Amended	2016-08	03/17/2016
606-10-55-328A through 55-328C	Added	2016-08	03/17/2016
606-10-55-329 through 55-331	Amended	2016-08	03/17/2016
606-10-55-333	Amended	2016-08	03/17/2016
606-10-55-333A	Added	2016-08	03/17/2016
606-10-55-333B	Added	2016-08	03/17/2016
606-10-55-334	Amended	2016-08	03/17/2016
606-10-55-334A through 55-334F	Added	2016-08	03/17/2016
606-10-65-1	Amended	2016-08	03/17/2016

The amendments in this Update were adopted by the unanimous vote of the seven members of the Financial Accounting Standards Board:

Russell G. Golden, *Chairman*
James L. Kroeker, *Vice Chairman*
Daryl E. Buck
Thomas J. Linsmeier
R. Harold Schroeder
Marc A. Siegel
Lawrence W. Smith

Background Information and Basis for Conclusions

Introduction

BC1. The following summarizes the Board's considerations in reaching the conclusions in this Accounting Standards Update. It includes reasons for accepting certain approaches and rejecting others. Individual Board members gave greater weight to some factors than to others.

Background Information

BC2. On May 28, 2014, the FASB issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and the IASB issued IFRS 15, *Revenue from Contracts with Customers* (collectively, the new revenue standard). The new revenue standard has largely converged for GAAP and IFRS. In June 2014, the FASB and the IASB announced the formation of the FASB-IASB Joint Transition Resource Group for Revenue Recognition (TRG). One of the objectives of the TRG is to inform the Boards about potential implementation issues that could arise when organizations implement the new revenue standard. The TRG also assists stakeholders in understanding specific aspects of the new revenue standard. The TRG does not issue authoritative guidance. Instead, the Boards evaluate the feedback received from the TRG and other stakeholders to determine what action, if any, is necessary for each potential implementation issue.

BC3. Reporting revenue gross versus net was discussed at the July 18, 2014 TRG meeting. The TRG discussed both the principal versus agent considerations guidance in the new revenue standard and the issue of determining the transaction price when an entity is a principal but is unaware of the price charged to the customer for its goods or services by an intermediary (that is, whether an entity should estimate the price charged to the customer by the intermediary and recognize that amount as its gross revenue as a principal in the transaction). That discussion informed the Boards about potential challenges with consistent application of the new revenue standard. Following the TRG meetings, the FASB and the IASB directed their respective staffs to perform additional research and outreach on reporting revenue gross versus net. The focus of the additional research and outreach was to understand whether there were specific improvements each Board could make that would assist stakeholders with consistent application of the new revenue standard.

BC4. Both the FASB and the IASB agreed to make the amendments to the principal versus agent considerations guidance in this Update. Both Boards also agreed to amend existing examples and add new illustrative examples. As a result, the guidance to determine whether an entity is a principal or an agent remains converged. Both the FASB and the IASB expect the amendments will help reduce the cost and complexity of implementation by enhancing the operability and understandability of the guidance.

BC5. The FASB issued a proposed Accounting Standards Update, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, on August 31, 2015, with a 45-day comment period. The FASB received 21 comment letters on the proposed Update. Overall, respondents to the proposed Update expressed support for the proposed amendments, citing that the amendments improve the operability of the principal versus agent implementation guidance.

Scope

BC6. The scope of the guidance is the same as the scope of Topic 606 (see paragraphs 606-10-15-1 through 15-5).

Principal versus Agent Considerations

BC7. When another party, in addition to the entity, is involved in providing goods or services to a customer, Topic 606 requires the entity to determine whether it is either:

- a. A principal in the transaction (recognizing as revenue the gross amount of consideration to which it expects to be entitled in exchange for providing the specified goods or services to the customer)
- b. An agent in the transaction (recognizing as revenue the fee or commission for arranging for the specified goods or services to be provided by the other party to the customer).

Paragraphs 606-10-55-36 through 55-40 include guidance to help an entity make that determination.

BC8. The TRG discussed a number of issues about the guidance in paragraphs 606-10-55-36 through 55-40. Some stakeholders questioned whether control is always the basis for determining whether an entity is a principal or an agent and how the control principle and the indicators in paragraph 606-10-55-39 work together. Other stakeholders questioned how to apply the control principle to contracts involving intangible goods or services.

BC9. In the light of those discussions and the feedback on the proposed Update, the Boards discussed and decided to clarify the principal versus agent

guidance in paragraphs 606-10-55-36 through 55-40 and the related illustrative examples.

BC10. When another party is involved in providing goods or services to a customer, the amendments to the implementation guidance clarify how an entity determines whether it is a principal or an agent. These amendments focus on (a) the need for appropriately identifying the good or service that is transferred to the customer (the specified good or service) and (b) determining whether the entity has promised to provide the specified good or service itself (that is, the entity is a principal) or to arrange for the specified good or service to be provided to the customer by the other party (that is, the entity is an agent). The entity determines the nature of its promise on the basis of whether the entity controls the specified good or service before that good or service is transferred to the customer. Throughout the guidance on principal versus agent considerations, the Boards decided to refer to the *specified good or service* transferred to the customer (as in paragraph 606-10-55-36), rather than the *performance obligation*. This is because use of the term *performance obligation* would have been confusing if the entity is an agent. An agent's performance obligation is to arrange for the other party to provide its goods or services to the customer; it does not promise to provide the goods or services itself to the end customer. Accordingly, the specified good or service to be provided to the end customer is not the performance obligation of the agent.

Principle for Determining Whether an Entity Is a Principal or an Agent

BC11. Paragraph 606-10-55-36 requires an entity to determine whether it is a principal or an agent on the basis of whether the nature of the entity's promise is a performance obligation to provide the specified goods or services itself (that is, the entity is a principal) or to arrange for those goods or services to be provided by another party (that is, the entity is an agent). Assessing whether the entity controls the specified good or service before it is transferred to the customer is the basis for determining the nature of the entity's promise.

BC12. The Boards observed that in order for an entity to conclude that it is providing the specified good or service to the customer, it must first control that good or service (as defined in paragraph 606-10-25-25). The entity cannot provide the specified good or service to a customer if the entity does not first have control of the good or service to be provided. If an entity controls the specified good or service before that good or service is transferred to the customer, the entity is the principal in the transaction with the customer. If the entity does not control the specified good or service before that good or service is transferred to a customer, the entity is not a principal in the transaction with the customer. The Boards noted that their considerations in this respect are explained in paragraph BC380 of Update 2014-09.

BC13. In addition, the Boards noted that an entity that itself manufactures a good or performs a service is always a principal if the entity transfers control of that good or service to another party. Such an entity does not need to evaluate whether it is a principal or an agent using the guidance in paragraphs 606-10-55-36 through 55-40 because the entity transfers the good or provides the service directly to its customer without the involvement of another party. If the entity transfers a good or provides a service to an intermediary that is a principal in providing that good or service to an end customer (whether individually or as part of a distinct bundle of goods or services), the entity's customer is the intermediary.

BC14. Because of the concerns highlighted in the TRG discussions, the Boards decided to clarify the following aspects of the implementation guidance on principal versus agent considerations:

- a. The relationship between the control principle and the indicators in paragraph 606-10-55-39
- b. The application of the control principle to intangible goods and services.

The Relationship between Control and the Indicators in Paragraph 606-10-55-39

BC15. The Boards observed that the questions about the relationship between the assessment of control and the indicators of control in paragraph 606-10-55-39, at least in part, arose because the indicators in that paragraph are carried forward from Topic 605, Revenue Recognition, and IAS 18, *Revenue*. IAS 18 had a principle for this assessment (based on risks and rewards) that was different from the control principle in IFRS 15, and although Topic 605 did not explicitly include a principle, the indicators were understood to be indicators of risks and rewards. In addition, the structure of the analysis in Examples 45–48 in Topic 606 added to the confusion.

BC16. The Boards' considerations (explained in paragraph BC382 of Update 2014-09) highlight that the indicators in paragraph 606-10-55-39 were included to support an entity's assessment of whether it controls a specified good or service before it is transferred to the customer. The indicators (a) do not override the assessment of control, (b) should not be viewed in isolation, (c) do not constitute a separate or additional evaluation, and (d) should not be considered a checklist of criteria to be met in all scenarios. Considering one or more of the indicators often will be helpful, and, depending on the facts and circumstances, individual indicators will be more or less relevant or persuasive to the assessment of control.

BC17. The Boards acknowledged that the indicators are similar to those in Topic 605 and IAS 18 but also noted their considerations in this respect explained in paragraph BC382 of Update 2014-09. Paragraph BC382 explains that the

Boards decided to carry over some of the indicators in previous revenue recognition standards even though those indicators have a different purpose in the new standard. In the new standard, the indicators support the concepts of identifying performance obligations and the transfer of control of goods or services. Accordingly, the Boards had expected that the conclusions about principal versus agent under Topic 606 could be different in some scenarios from those reached under the previous revenue recognition standards. Furthermore, the Boards observed that although exposure to risks and rewards alone does not give an entity control, exposure to risks and rewards can be a helpful factor to consider in determining whether an entity has obtained control (see paragraph 606-10-25-30).

BC18. The Boards decided to amend the indicators in paragraph 606-10-55-39 to more clearly establish a link between the control principle and the indicators by:

- a. Reframing the indicators as indicators of when an entity controls a specified good or service before transfer, rather than as indicators that an entity does not control the specified good or service before transfer.
- b. Adding guidance to explain how each indicator supports the assessment of control as defined in paragraph 606-10-55-39. This should help entities apply indicators that are similar to those in the previous revenue recognition guidance but within the context of the control principle in Topic 606.
- c. Removing the indicator relating to the form of the consideration. Although that indicator might sometimes be helpful in assessing whether an entity is an agent, the Boards concluded that it would not be helpful in assessing whether an entity is a principal.
- d. Removing the indicator relating to exposure to credit risk. The feedback on the proposed Update highlighted that exposure to credit risk is generally not a helpful indicator when assessing whether an entity controls the specified good or service. Stakeholders observed that the credit risk indicator in the previous revenue guidance has been problematic from the perspective of entities trying to use exposure to credit risk to override stronger evidence of agency. The Boards concluded that removing the credit risk indicator should reduce some of the complexity in the principal versus agent evaluation because the credit risk indicator typically will be less (or not) relevant to the evaluation for contracts with customers within the scope of Topic 606.
- e. Clarifying that the indicators are not an exhaustive list and merely support the assessment of control. They do not replace or override that assessment. The Boards decided to explicitly state that one or more of the indicators might provide more persuasive evidence to support the assessment of control in different scenarios.

BC19. The FASB considered whether additional changes to the indicators, beyond those in paragraph BC18, might further clarify and make more operable the application of the control principle. For example, the FASB considered

whether there were additional, or different, factors or criteria that might be determinative to the principal versus agent assessment that should be included in the guidance in addition to, or instead of, the indicators in paragraph 606-10-55-39. The FASB also considered whether, even if the indicators in paragraph 606-10-55-39 were mostly retained, additional changes differentiating them from the indicators in previous GAAP would help entities to understand and apply the different principle those indicators serve in Topic 606 (that is, different from the risks and rewards principle underlying previous GAAP).

BC20. Despite its view that some additional changes might further clarify the principal versus agent guidance in Topic 606, the FASB decided to make more limited amendments that converge with those that are being made by the IASB. The FASB concluded that there were significant benefits to all stakeholders in retaining converged principal versus agent guidance and that any benefits that might be obtained from the additional changes that were considered did not outweigh the significant benefits of retaining converged principal versus agent guidance. The FASB also observed that some of the benefits that might be obtained from those additional considered changes could also be obtained through stakeholder education.

The Use of the Indicators in Paragraph 606-10-55-39 Rather Than the Indicators in Paragraph 606-10-25-30

BC21. Some stakeholders questioned why the indicators in paragraph 606-10-55-39 are different from the indicators on the satisfaction of performance obligations (paragraph 606-10-25-30), noting that both sets of indicators relate to control.

BC22. The Boards observed that the indicators in paragraph 606-10-25-30 are indicators of the point in time at which the customer obtains control of the promised good or service. Accordingly, those indicators serve a different purpose than the indicators in paragraph 606-10-55-39. The indicators in paragraph 606-10-25-30 are not intended to indicate *whether* the customer obtains control of a promised asset—within the context of Topic 606 as a whole, it is assumed that the customer will obtain control of the promised asset at some point—instead, they are intended to indicate *when* the customer has obtained control. In contrast, the indicators in paragraph 606-10-55-39 are intended to indicate whether the entity controls a specified good or service before that good or service is transferred to the customer.

Applying Control to Intangible Goods or Services

BC23. The Boards observed that at least some of the difficulty that stakeholders raised about the application of the control principle, in particular to intangible goods and services, is linked to challenges in identifying the specified good or

service to be provided to the customer. The Boards observed that this also had frequently been a challenge for entities under previous revenue recognition guidance.

BC24. The principal versus agent considerations relate to the application of Step 2 of the revenue recognition model—*identify the performance obligations in the contract*. Appropriately identifying the good or service to be provided is a critical step in appropriately identifying whether the nature of an entity's promise is to act as a principal or an agent. When the appropriate specified good or service is identified, the assessment of control often is relatively straightforward, even when the specified good or service is an intangible good or a service. For example, the specified good or service to be provided to the customer could be:

- a. A right to goods or services (see paragraph 606-10-25-18). For example, the airline ticket (a right to fly) in Example 47 and the meal voucher (a right to a meal) in Example 48 in this Update.
- b. A bundle of goods or services that are not distinct from each other (for example, the specialized equipment in Example 46 in this Update).

BC25. The Boards observed that when the specified good or service to be provided to the customer is a right to goods or services to be provided in the future by another party, the entity would determine whether its performance obligation is a promise to provide a right to goods or services or whether it is arranging for the other party to provide that right. The fact that the entity will not provide the goods or services itself is not determinative. Instead, the entity evaluates whether it controls the right to goods or services before that right is transferred to the customer. In doing so, it is often relevant to assess whether the right is created only when it is obtained by the customer or whether the right to goods or services exists before the customer obtains the right. If the right does not exist before the customer obtains it, an entity would be unable to control that right before it is transferred to the customer.

BC26. Some respondents to the FASB's proposed Update and the IASB's Exposure Draft stated that it could be difficult in some cases to determine when the specified good or service is the right to a good or service and when it is the underlying good or service itself (for example, in the case of Example 47, whether the specified good or service is a right to the flight [the ticket] or the flight itself). The Boards observed that there may be judgment involved in identifying the specified good or service in some cases (just as identifying an entity's performance obligations outside the context of a principal versus agent evaluation often will require judgment). The Boards observed that assessing whether the entity controls a right to a good or service is important to the principal versus agent evaluation. The Boards noted that there are distinctions between the principal versus agent examples that are important to determining, in each example, whether the specified good or service is a right to a good or service or the underlying service itself.

BC27. In Example 47, the entity itself does not transport the customers and it cannot change or modify the service (that is, change the flight time or destination). The entity does not obtain a customer and then obtain a flight service provider to fulfill its performance obligation to the customer to transport the customer from Point A to Point B. Rather, the entity obtains tickets before a customer is identified for each of those tickets. The tickets represent specified rights to fly on specific flights. The entity, therefore, controls a right to fly, which is an asset because:

- a. The entity can direct the use of the ticket—the entity can use the ticket itself, sell the ticket to any customer it wishes, or let the ticket to expire unused.
- b. The entity can obtain substantially all the remaining benefits of the ticket—the entity can either consume the right or obtain all of the cash flows from sale of that right.

The entity then transfers that specific right to the customer. Hence, the customer obtains from the entity a specified asset (the ticket representing the right to fly on a specified flight) that the entity controlled.

BC28. In contrast, Example 46A concludes that the specified good or service is the underlying office maintenance services rather than a right to those services. In that Example, the entity obtains the contract with the customer to provide the office maintenance services before it engages a subcontractor (the third-party maintenance services provider) to perform those services. While the entity enters into a contract to obtain office maintenance services from the subcontractor after entering into the contract with the customer (but before the office maintenance services are provided to the customer), the right to the subcontractor's services is not transferred to the customer. The entity retains control over that right (that is, the entity retains the right to utilize the services from the subcontractor as it sees fit—it can utilize its right to office maintenance services to fulfill the customer contract or another customer contract or to service its own facilities). The customer does not obtain control of the entity's right to direct the subcontractor. The customer has contracted with the entity for office maintenance services and the customer is indifferent as to whether the subcontractor, the entity, or any other subcontractor carries out the maintenance services as long as those services are in accordance with the contractual terms. In contrast, in Example 47, the customer is not indifferent as to which ticket the ticket broker transfers to it. The customer wants the ticket broker to transfer a specific right that the customer will then control (that is, a ticket for a specific flight).

BC29. The Boards also observed that the specified good or service to which the control principle is applied should be a distinct good or service or a distinct bundle of goods or services. If individual goods or services are not distinct from each other, then they may be, for example, merely inputs to a combined item and are each only part of a single promise to the customer. Accordingly, an entity

should evaluate the nature of its promise (that is, to act as a principal or an agent) in the context of the promise to the customer, rather than for part of that promise. Consequently, in contracts in which goods or services provided by another party are inputs to a combined item (or items) for which the customer has contracted, the entity assesses whether it controls the combined item before that item is transferred to the customer.

BC30. When a specified good or service is a distinct bundle of goods or services, the principal versus agent analysis may, in some cases, be straightforward. The Boards concluded (in paragraph 606-10-55-37A(c)) that when an entity provides a significant service of integrating two or more goods or services into the combined output that is the specified good or service for which the customer contracted, it controls that specified good or service before it is transferred to the customer. When the entity provides a significant integration service, it controls the inputs to the combined item that is the specified good or service (including goods or services provided by another party that are inputs to the specified good or service). The entity controls the inputs by directing their use to create the combined item. In that case, the inputs provided by the other party would be a fulfillment cost to the entity. In contrast, if a third party provides the significant integration service, then the entity's customer for its goods or services (which would be inputs to the specified good or service) is likely to be the other party.

BC31. The Boards decided to clarify the thought process to be applied when assessing whether an entity is a principal or an agent by specifically requiring an entity to identify the specified good or service before applying the control principle to each specified good or service. The amendments to paragraph 606-10-55-36 through 55-36A achieve the following:

- a. Provide a better framework to be applied when assessing whether an entity is a principal or an agent.
- b. Emphasize the importance of appropriately identifying the specified good or service (which could be a right to a good or service to be provided by another party) that will be transferred to the customer.
- c. Clarify that the specified good or service (that is, the unit of account for the principal versus agent evaluation) is each distinct good or service (or distinct bundle of goods or services). Accordingly, the amendments also clarify that because a contract with a customer could include more than one specified good or service, an entity could be a principal for one or more specified goods or services in a contract and an agent for others.
- d. Emphasize that control (as defined in paragraph 606-10-25-25) is the determining factor when assessing whether an entity is a principal or an agent.

BC32. The FASB noted that, in many respects, the amendments to paragraphs 606-10-55-36 through 55-36A merely connect the principal versus agent guidance to other aspects of the revenue model in Topic 606. Therefore,

including that guidance may not be essential to clarifying and improving the principal versus agent guidance but will, nonetheless, be helpful. The FASB further observed that other areas of the implementation guidance in Topic 606, for example, the guidance on licensing, include references to other aspects of the revenue model for which the Boards concluded it was important to do so. In this case, the FASB concluded that the connections drawn between the principal versus agent guidance and those other aspects of the model are essential to applying the principal versus agent guidance appropriately and, therefore, including explicit guidance is important to ensure that entities make those connections. The FASB also observed that under previous GAAP (Topic 605), entities frequently struggled to properly identify the deliverable when making principal versus agent evaluations and, therefore, including clear guidance about identifying the specified good or service represents an improvement to Topic 606 as compared with Topic 605.

Assessment of Control of a Service

BC33. The TRG discussions highlighted concerns about the application of the control principle to services to be provided to a customer. Questions discussed included how an entity (other than the service provider) could control a service before that service is transferred to the customer because a service comes into existence only at the moment that it is delivered.

BC34. The Boards observed that an entity can control a service to be provided by another party when it controls the right to the specified services from the other party that will be provided to the customer. The entity then either transfers the right to the services to the customer (for example, the airline ticket in Example 47) or uses its right to direct the other party to provide the services to the customer on the entity's behalf (that is, to satisfy the entity's performance obligation in the contract with the customer) such as in Example 46A. Determining whether the entity controls a right to a specified service requires consideration of the facts and circumstances. The Boards noted that contracts involving services provided by another party in which the entity is a principal can be broadly categorized as follows:

- a. Contracts in which an entity provides the customer with a right to a future service to be provided by another party, such as the right to a specified flight (in the form of a ticket) to be provided by an airline (as discussed in paragraph BC27).
- b. Contracts in which the service provided by the other party is not distinct from other goods or services promised to the customer, and the entity directs the use of that service to create the combined item that is the specified good or service for which the customer has contracted (as discussed in paragraphs BC29 through BC30). Paragraph 606-10-55-37A(c) states that this scenario would exist whenever the entity provides a significant service of integrating the service provided by another party

into the specified good or service for which the customer has contracted. Example 46 in this Update illustrates this scenario.

- c. Contracts in which an entity directs another party to provide the service to the customer on the entity's behalf in satisfying the entity's performance obligation. Example 46A in this Update illustrates this scenario.

BC35. The Boards observed that determining whether an entity is a principal or an agent may be more difficult in the third category of contracts listed above. Having entered into a contract with a customer, the entity engages another party (a subcontractor) to satisfy a performance obligation within that contract on its behalf. In these contracts, the entity would assess whether it controls a right to the specified services. An entity could control the right to the specified services by entering into a contract with the subcontractor and defining the services to be performed by the subcontractor on the entity's behalf. In that scenario, as outlined more fully in paragraph BC28, the entity obtains the right to the services of the subcontractor and then directs the subcontractor to provide the services to the customer on the entity's behalf. This scenario is equivalent to the entity fulfilling the contract using its own resources rather than engaging another party to do so. The entity would remain responsible for the satisfactory provision of services in accordance with the contract with the customer. In other scenarios in which the specified services provided to the customer are provided by another party and the entity did not have the ability to direct those services, the entity would typically be an agent. In those scenarios, the entity is likely to be facilitating (and arranging for) the provision of services by the other party rather than controlling the rights to the services that the entity then directs to the customer.

BC36. The Boards noted that paragraph 606-10-55-37 explains that an entity that is a principal in a contract may satisfy a performance obligation by itself or it may engage another party to satisfy some or all of a performance obligation on its behalf. The Boards decided to add further explanation to clarify the assessment of control of a service by explaining the scenarios in which a principal can control a service to be provided by another party. The Boards also decided to add Example 46A to the implementation guidance in this Update to illustrate the application of control to services.

Estimating Gross Revenue as a Principal

BC37. The Boards were informed of questions about the accounting for transactions in which an entity is a principal in a transaction but uncertainty in the transaction price is not expected to ultimately be resolved. With respect to those transactions, the Boards were informed that, under GAAP before the adoption of Topic 606, some entities estimate the price charged to the customer by the intermediary and recognize that amount as their revenue, while other entities

recognize the known amount to which they are entitled from the intermediary as their revenue.

BC38. The FASB decided not to propose amendments to Topic 606 to address questions about those transactions. The Board's rationale for this decision included:

- a. The guidance in Topic 606 appears to be sufficient to address the accounting given the current narrow scope of the issue. Based on research and outreach, the issue is not pervasive and affects a limited number of entities and contracts. The stakeholders that raised the questions recommended that the Boards not address the issue.
- b. The Board wanted to maintain convergence with IFRS 15. The IASB chose not to make amendments to IFRS 15 for this issue.
- c. The determination of whether revenue may be estimated or not is based on an assessment of the transaction price guidance in Section 606-10-32 on measurement (such as, the amount of consideration which the entity expects to be entitled to for transferring promised goods or services to a customer and the constraint on variable consideration). The guidance on variable consideration is instructive as to whether amounts should be recognized as revenue. A key tenet of variable consideration is that at some point the uncertainty in the transaction price ultimately will be resolved. When the uncertainty is not expected to ultimately be resolved, the guidance indicates that the difference between the amount to which the entity is entitled from the intermediary and the amount charged by the intermediary to the end customer is not variable consideration and, therefore, is not part of the entity's transaction price.
- d. The Board is concerned that there is a risk of unintended consequences of revising the transaction price guidance to clarify the accounting for a narrow issue.

Benefits and Costs

BC39. The objective of financial reporting is to provide information that is useful to present and potential investors, creditors, donors, and other capital market participants in making rational investment, credit, and similar resource allocation decisions. However, the benefits of providing information for that purpose should justify the related costs. Present and potential investors, creditors, donors, and other users of financial information benefit from improvements in financial reporting, while the costs to implement new guidance are borne primarily by present investors. The Board's assessment of the costs and benefits of issuing new guidance is unavoidably more qualitative than quantitative because there is no method to objectively measure the costs to implement new guidance or to quantify the value of improved information in financial statements.

BC40. The Board does not anticipate that entities will incur significant costs as a result of the amendments in this Update because the amended guidance currently is not effective. The objective of this Update is to reduce the risk of diversity in practice before organizations implement Topic 606, which should benefit financial statement users by providing more comparable information. Additionally, the amendments should reduce the cost and complexity of applying Topic 606 both at transition and on an ongoing basis.

Amendments to the XBRL Taxonomy

The amendments to the *FASB Accounting Standards Codification*[®] in this Accounting Standards Update do not require changes to the U.S. GAAP Financial Reporting Taxonomy (Taxonomy). Any stakeholders who believe that changes to the Taxonomy are required should provide their comments and suggested changes through ASU Taxonomy Changes provided at www.fasb.org.