



FASB Finalizes Amendments to Principal-Agent Guidance in New Revenue Standard

The FASB recently issued an Accounting Standards Update (ASU) that amends the principal versus agent guidance in the new revenue standard.¹ The ASU clarifies that the analysis must focus on whether the entity has control of the goods or services before they are transferred to the customer.

Key Facts

- An entity determines the nature of the goods or services provided to the customer and whether it controls each specified good or service before it is transferred to the customer.
- An entity can be a principal for some goods or services and an agent for others within the same contract.
- An entity is a principal if it controls the goods or services before transferring them to the customer.
- If the entity is not certain it has control, it would evaluate three indicators that control has been obtained before the entity transfers the goods or services to a customer: the entity is primarily responsible for fulfillment; the entity has inventory risk before or after the good or service is transferred to the customer; and the entity has discretion to establish pricing. Credit risk does not indicate that an entity has obtained control.

The ASU provides additional guidance about how to apply the control principle when services are provided and when goods or services are combined with other goods or services. The ASU revises examples and adds new examples.

Key Impacts

Companies will need to re-evaluate their principal-agent conclusions using the new guidance as they prepare to adopt the new revenue standard. Current practice may change, particularly if credit risk was a key factor supporting gross reporting. The IASB is expected to issue identical amendments to its revenue standard to maintain convergence between U.S. GAAP and IFRS.²

¹ FASB Accounting Standards Update No. 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), and FASB Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers, both available at www.fasb.org.

² IFRS 15, Revenue from Contracts with Customers.

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KPMG Resources

For further information about the amendments to the new revenue standard's principal versus agent guidance, refer to these KPMG publications.

- [Defining Issues No. 15-58](#), *FASB and IASB Reaffirm Amendments to Principal-Agent Guidance in Revenue Standard*
- [Defining Issues No. 15-40](#), *FASB Proposes Amendments to Principal-Agent Guidance in Revenue Standard*
- [Defining Issues No. 15-27](#), *FASB and IASB to Propose Amendments to Principal-Agent Guidance In Revenue Standard*

The IASB will issue its final amendments, including those on principal versus agent, in the near term.

Next Steps

The FASB completed its redeliberations on the substantive amendments to the new revenue standard. Between now and early in the second quarter, we expect the FASB to issue ASUs that amend and clarify:

- Performance obligations and licensing;³ and
- Narrow-scope improvements and practical expedient amendments.⁴

An exposure draft about proposed technical corrections to the new standard is expected to be issued early in the second quarter. The exposure draft is expected to amend pre-production cost guidance for long-term contracts, address the scope for fixed-odds wagering contracts, and make other technical corrections. It is also expected to provide disclosure relief related to remaining performance obligations for certain types of variable consideration.

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³ KPMG's Defining Issues No. 15-46, FASB Redeliberates Revenue Guidance on Licensing and Performance Obligations, available at kpmg.com/us/FRN.

⁴ KPMG's Defining Issues No. 16-5, FASB Reaffirms Amendments to Revenue Standard; Discusses Potential Disclosure Relief, available at kpmg.com/us/FRN.