

APPENDIX B

Presentation of turnover as principal or as agent

Features

G60 A seller may act on its own account when contracting with its customers for the supply of goods in return for the right to consideration. In such transactions the seller is frequently referred to as a principal.

G61 Alternatively, a seller may act as an intermediary, earning a fee or commission in return for arranging the provision of goods or services on behalf of a principal. In such transactions, the seller is frequently referred to as an agent.

Analysis

G62 The purpose of the analysis below is to determine whether a seller obtains the right to consideration by performing its contractual obligations:

(a) as principal in an exchange transaction with its customer; or

(b) as agent in relation to a transaction between its principal and the principal's customer.

G63 The general principles of the standard require that, in order for a seller to account for exchange transactions as principal, it should normally have exposure to all significant benefits and risks associated with at least one of the following:

(a) Selling price: the ability, within economic constraints, to establish the selling price with the customer, either directly or, where the selling price of an item is fixed, indirectly by providing additional goods or services or adjusting the terms of a linked transaction; or

(b) Stock: exposure to the risks of damage, slow movement and obsolescence, and changes in suppliers' prices.

G64 Where the seller has not disclosed that it is acting as agent, there is a rebuttable presumption that it is acting as principal.

G65 Additional factors which indicate that a seller may be acting as principal include:

(a) performance of part of the services, or modification to the goods supplied;

(b) assumption of credit risk; and

(c) discretion in supplier selection.

G66 In contrast, where a seller acts as agent it will not normally be exposed to the majority of the benefits and risks associated with the exchange transaction. Agency arrangements will typically include the following characteristics:

- (a) the seller has disclosed the fact that it is acting as agent;
- (b) once the seller has confirmed its customer's order with a third party, the seller will normally have no further involvement in the performance of the ultimate supplier's contractual obligations;
- (c) the amount that the seller earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer; and
- (d) the seller bears no stock or credit risk, other than in circumstances where it receives additional consideration from the ultimate supplier in return for its assumption of this risk.

Required accounting

Seller acts as principal

G67 Where the substance of a transaction is that the seller acts as principal, it should report turnover based on the gross amount received or receivable in return for its performance under the contractual arrangement.

Seller acts as agent

G68 Where the substance of a transaction is that the seller acts as agent, it should report as turnover the commission or other amounts received or receivable in return for its performance under the contractual arrangement. Any amounts received or receivable from the customer that are payable to the principal should not be included in the agent's turnover.

Illustrations

G69 A seller acts as a building contractor for the construction of a new office block. An analysis of the arrangement shows that the terms of the seller's contract with its customer include a negotiated selling price, credit risk for amounts due from the customer, primary responsibility for the construction and quality of the new building and discretion as to whether it carries out the work itself or employs subcontractors. The seller is acting as principal and should account for the gross amount of turnover, regardless of whether it carries out the work itself or employs subcontractors to carry out part or all of the construction activities.

G70 A seller acts as an online retailer from a website, where it advertises holidays. An analysis of the arrangement shows that it acts as an intermediary between its customers and the ultimate sellers of the holidays and that it does not set the selling price. Its contractual terms of business include an exclusion of any liability to its customers once they have been put in touch with the ultimate sellers. The seller is paid a fee for each customer that purchases a holiday from an ultimate seller and has

no involvement in the transaction after it has put the customer in touch with the ultimate seller. The seller is acting as agent and its turnover should include only the fees it receives from the ultimate seller.

G71 A department store provides space for concessionaires to sell products and receives a fixed amount of rental income from the concessionaire. An analysis of the factors discussed in paragraphs G63 - G66 shows that the concessionaire is acting as principal in an exchange transaction with its customers and is entitled to the amounts received from the sale of the goods and services. In these circumstances, the concessionaire should include within its turnover the amounts received or receivable in respect of the sale of the goods and services. The department store should not include within its turnover the value of the concessionaire's sales.

Disclosure - seller acts as agent

G72 Where a seller acts as agent, it is encouraged, where practicable, to disclose the gross value of sales throughput as additional, non-statutory information. Where such disclosure is given, a brief explanation of the relationship of recognised turnover to the gross value of sales throughput should be given.