

How to tell if my company is agent and not principal (2) (2/33/20)

This article completes what we wrote last week about [IFRS 15](#).

Example 3. Multiple goods or services

Payroll Accountant Ltd provides payroll accounting services to its customers (computes wages and salaries, files social insurance reports etc). In addition, Payroll Accountant Ltd advises companies on matters of payroll tax legislation. The two kinds of services are distinct and can be supplied separately.

As Payroll Accountant Ltd lacks resources and expertise, advice on tax matters is provided by Tax Consultant Ltd, a company that sets its own service fees and directly communicates with customers about the content, timing and scope of work.

Payroll Accountant Ltd is sometimes involved in settling disputes between its customers and Tax Consultant Ltd. Such disputes are a rare occurrence, and any improvements made to an unsatisfactory deliverable or compensations due are fully recovered from Tax Consultant Ltd.

Customers pay a monthly fee to Payroll Accountant Ltd for payroll accounting services. Tax Consultant Ltd charges for tax consulting services according to their degree of complexity as agreed with the customer. Payroll Accountant Ltd receives this fee and forwards it to Tax Consultant Ltd after keeping a 2.5% commission for attracting customers. Payroll Accountant Ltd is not required to transfer an amount receivable from a customer to Tax Consultant Ltd before the customer has paid it.

Is Payroll Accountant Ltd the principal or agent?

Answer: Payroll Accountant Ltd is the principal in providing payroll accounting services but acts as agent for tax consulting services.

Reasoning: In this situation, each of the services should be assessed separately. As Payroll Accountant Ltd fully controls the process of payroll accounting services and no third party is involved, Payroll Accountant Ltd is clearly the principal in providing those services.

On the other hand, Payroll Accountant Ltd has no control over the content or timing of tax consulting services and is not responsible for the performance of work. Payroll Accountant Ltd is unable to set the service fee, takes no credit risk and collects only an agreed percentage of the transaction fee.

Example 4. Transportation charges

E-Market Ltd sells children's goods online. At the time of purchase, customers can choose to pick the goods up at E-Market's warehouse free of charge or to have them delivered by courier to their home address for an agreed fee. Timing alternatives include fast delivery (one working day) or standard delivery (one week). The customer can monitor their order delivery status and contact Delivery Ltd, a company responsible for delivery, to ask questions. The contract provides that Delivery Ltd assumes risks of

inventory damage that may arise during the delivery from E-Market's warehouse to the address designated by the customer.

Is E-Market Ltd the principal or agent for the delivery service?

Answer: E-Market Ltd acts as agent for the delivery service and should recognise its net revenue from the delivery service in its books.

Reasoning: As an agent between the customer and Delivery Ltd, E-Market Ltd does not control the delivery process. E-Market Ltd is not responsible for delivery and does not set delivery prices. Delivery Ltd assumes inventory damage risk during delivery.

Example 5. A soap maker and VAT

Soap Ltd sells home-made soap on various markets. In a certain country, VAT is payable according to the number of goods sold. In other words, the obligation to pay 21% VAT does not arise unless goods are sold to the consumer. Invoices issued by Soap Ltd must state the amount of VAT separately from the taxable amount. If the rate of VAT changes, Soap Ltd will show the new rate and the amount of VAT on its invoice, and the price of goods will change accordingly.

Is Soap Ltd acting as agent in collecting VAT?

Answer: Soap Ltd is an agent responsible for VAT collection, and its revenue should be recognised without VAT.

Reasoning: Soap Ltd indeed acts as agent for the government in collecting VAT. The company is not required to pay VAT unless goods are sold. Soap Ltd only collects VAT from the customer, who can clearly see the amount of VAT on the invoice, and the change of rate is directly passed on to the customer. Calculations and payments of VAT are recognised in Soap Ltd through its balance sheet accounts only.