

## An analysis of the **Principal vs Agent** scenario under the new AASB 15

September 2019

### **AASB 15 Revenue from Contracts with Customers is here for school years ending 31 December 2019.**

Your application of the new standard should consider a range of different issues around revenue recognition and measurement, capital grants, disclosures, transition choices and flow on impacts to other standards.

This article provides insights on whether schools should recognise revenue on a gross basis (as a principal) or net of costs paid (as an agent) where other parties are involved in delivering services to students and their families.

Although some aspects of revenue recognition have not changed from the old revenue standard AASB 118, the assessment of whether a school is acting as a principal or an agent under the new requirements of AASB 15 may be different.

The different outcome is due to the emphasis of the new standard looking at revenue being brought to account based upon a control analysis at an individual performance obligation level compared to AASB 118 where revenue was brought to account from a risks and rewards analysis.

So, for example, there is no change to the recognition of tuition fees as the school controls the services before they are transferred to the student (customer).

However, what happens when the school does not control the good or service before it is being provided to the student?

The most obvious example of this is where the school organises an overseas study trip.

In most instances the school collects the money from the students and then pays the travel agent to arrange the airfares, accommodation, transfers, etc. The travel agent then issues the tickets, etc, to the student.

The question arises as to the nature of the promise in the arrangement: to transfer control of the tickets, etc, from the school to the student, or to arrange for the provision of the tickets and other services by another party (the travel agent)?

It now comes down to control.

If the school makes the bookings in its name and obtains control of those goods and services before, essentially, on-selling them to students, then it is likely the school is acting as principal.

However, if the school is only facilitating the arrangement between the travel agent and the student/parents and does not obtain control of the goods or service before passing control onto the student, it is likely that the school is acting as agent.

So, does it matter? Yes, it does! We are aware that some colleges' property lease payments are variable based on a percentage of 'revenue', which now may or may not include amounts collected from students in connection with overseas trips.

Therefore, if the assessment of whether you are a principal or agent changes as a result of this new standard, there could be a significant change in the makeup of the school's income statement. It may mean that the school no longer recognises any income or expenses from these types of transactions as all the school is doing is facilitating a transaction between the two other parties. **An explanation of this change to your Board or Canonical Administrators will be crucial to a successful transition.**

If it is determined that the school is acting as agent it would only recognise as revenue that element, margin or fee to which it is entitled. It would be best practice for a school to use a clearing account to account for these transactions.



A different scenario is when a school engages a private bus operator to transport students to and from school via a specified route. In this instance the school contracts directly with the operator and determines where the bus is to go and at what time, etc. Students pay the school a fee to access the bus service. In this case, the school controls the right to the service which it then provides to the students. Consequently, the school is acting as principal and so the fees received from students for this service should be recognised as revenue.

Previously schools thought about principal vs. agent in the context of risks and rewards and which party had credit risk associated with the transaction, which means there are now more opportunities for schools to end up with a different conclusion.

Another reason the assessment is having a bigger impact than expected is because it is now performed at a performance obligation level rather than a contract level.

If you have assumed your previous principal vs agent analysis still stands with the promulgation of the new accounting standard, then you should think again.

For further information on this issue or any other issue please contact your local Nexia representative.



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