**EXERCISE - REVENUES AGENT OR PRINCIPAL**

Sellit plc operates a website that enables customers to purchase goods from a range of suppliers who deliver the goods directly to the customers. When a good is purchased via the website, the Sellit is entitled to a commission that is equal to 10 per cent of the sales price. Sellit’s website facilitates payment between the supplier and the customer at prices that are set by the supplier. Sellit requires payment from customers before orders are processed and all orders are non-refundable. Sellit has no further obligations to the customer after arranging for the products to be provided to the customer.

**Required:**

Evaluate whether Sellit is acting as a principal or agent in its relationship with suppliers and customers. Explain the rationale for your conclusion.

**Solution**

To determine whether Sellit’s performance obligation is to provide the specified goods itself (ie the entity is a principal) or to arrange for the supplier to provide those goods (ie the entity is an agent), the entity considers the nature of its promise. Specifically, Sellit observes that the supplier of the goods delivers its goods directly to the customer and thus Sellit does not obtain control of the goods. Instead, Sellit’s promise is to arrange for the supplier to provide those goods to the customer. In reaching that conclusion, Sellit considers the following indicators from paragraph B37 of IFRS 15 as follows:

* (a)  the supplier is primarily responsible for fulfilling the contract—ie by shipping the goods to the customer;
* (b)  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)  the entity’s consideration is in the form of a commission (10 per cent of the sales price);
* (d)  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; and
* (e)  neither the entity, nor the supplier, has credit risk because payments from customers are made in advance.

Consequently, Sellit concludes that it is an agent and its performance obligation is to arrange for the provision of goods by the supplier. When Sellit 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), Sellit recognises revenue in the amount of the commission to which it is entitled.