[Date]

[Client Name]
[Client Address]
[City, State, Zip Code]

Subject: Advisory on Revenue Recognition: Principal versus Agent Considerations (IFRS 15 / ASC 606)

Dear [Client Contact Name],

We are writing to provide guidance regarding the accounting treatment for your revenue arrangements involving third-party goods or services. Under current accounting standards, companies must determine whether they act as a **Principal** or an **Agent** to ensure revenue is reported correctly on the gross or net basis.

1. The Core Principle
The determination rests on whether your company controls the specified good or service before it is transferred to the customer.

- **Principal (Gross Reporting):** If you control the good or service before transfer, you recognize the full amount billed to the customer as revenue and the cost of sales as an expense.
- **Agent (Net Reporting):** If your role is to arrange for another party to provide the goods or services, you recognize only the commission or fee earned as revenue.

2. Indicators of Control
To determine if you have control, the following indicators are evaluated:

- **Primary Responsibility:** Who is responsible for fulfilling the promise to the customer and ensuring the product meets specifications?
- **Inventory Risk:** Who bears the risk of loss before the goods are transferred or in the event of customer returns?
- **Pricing Discretion:** Who has the latitude to establish the price for the good or service?

3. Impact on Financial Statements
Misclassification can significantly distort your reported "Top Line" revenue and gross margins. While the net income remains the same under both methods, the presentation affects financial ratios and growth metrics used by investors and lenders.

4. Next Steps
We recommend a review of your existing contracts with both suppliers and customers. We are available to assist you in documenting your assessment to ensure compliance with [IFRS 15 / ASC 606] requirements.

Please contact us if you would like to schedule a formal review of these arrangements.

Sincerely,

[Your Name/Partner Name]
[Firm Name]