RELEVANT FACTS:
RAFS, Inc. (RAFS) incurs airline travel expenses in connection with providing consulting services to its clients. The amounts incurred for airline fees are billed to clients in the amount incurred. The clients have no involvement in the incurrence of these costs, other than reimbursing RAFS.

ISSUE:
Should RAFS recognize reimbursement of the airline expense “gross” (as revenue and expense in equal amounts) or “net” (as a reduction to the expense).

DISCUSSION:
EITF 01-14 “Income Statement Characterization of Reimbursements Received for ‘Out-of-Pocket’ Expenses Incurred” states that “reimbursements received for out-of-pocket expenses incurred should be characterized as revenue in the income statement.” EITF 01-14 also references EITF 99-19 and 00-10, both of which seek to include costs necessary to provide goods or services be reflected “gross” while costs incurred as an “agent” to a transaction should reflect only the fees earned acting as the agent as revenue. RAFS does not appear to be acting as an agent to the client in the incurrence of the airline travel expenses, rather RAFS is incurring these costs as a direct cost necessary to provide the services to the client.

EITF 01-14 provides indicators supporting gross reporting in paragraph 5, and indicators supporting net reporting in paragraph 6. While indicators for both are evidenced by the RAFS client reimbursement structure, paragraph 7 places emphasis on the “primary obligor” indicator, which supports gross reporting. RAFS is the “primary obligor” as clearly evidenced by the definition given in paragraph 5: “the service provider (seller) is the primary obligor with respect to purchasing goods and services from third-party suppliers, such as airlines.”

CONCLUSION:
RAFS should report reimbursements for airline travel as revenue and the cost as an expense (gross reporting). RAFS is not acting as an agent in the transaction and is incurring the costs as a necessary component to providing the service agreed upon with the client. Further, RAFS is the primary obligor in the incurrence of these costs which receives emphasis in EITF 01-14 and also indicates gross reporting.