
Payments on behalf of an entity

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Purpose of this session

We want to ask for your views about whether the IASB's proposed disclosures for non-cash transactions are **sufficient** to give investors the information they need about payments and receipts made on behalf of an entity (for example, a bank executing a transaction directly with a seller at the company's direction—see **slide 8**).

Supporting material

To help you consider this matter, we include in this material **illustrative examples** that show how the proposed disclosures would work for a selection of transactions that include payments or receipts made on behalf of an entity. See the examples in Appendix A (**slides 7–15**).

Problem statement

We have identified broadly **two accounting practices** for reporting payments made on behalf of an entity by a third party. These practices will also affect how flows of non-cash transactions are disclosed.

Practice 1—cash flow reporting

An entity considers the payments and receipts as cash flows of the entity and presents them in the statement of cash flows as if the payments had flowed through the entity's cash and cash equivalents accounts.

Practice 2—non-cash transaction

An entity considers the payments and receipts not as cash flows and excludes them from the statement of cash flows, disclosing them as non-cash transactions.



Consequence—reduced comparability

Entities might report the same transactions differently. Our initial research identified that without transparent information about these differences, investors struggled comparing entities with each other.

Questions for CMAC members

QUESTION 1

Considering Illustrative Example A for the property acquisition using a mortgage (**slides 8–10**), does the location of the flow information matter for your analysis (statement of cash flows versus note on disclosures for non-cash transactions—see **slide 10**)? If so, why?

QUESTION 2

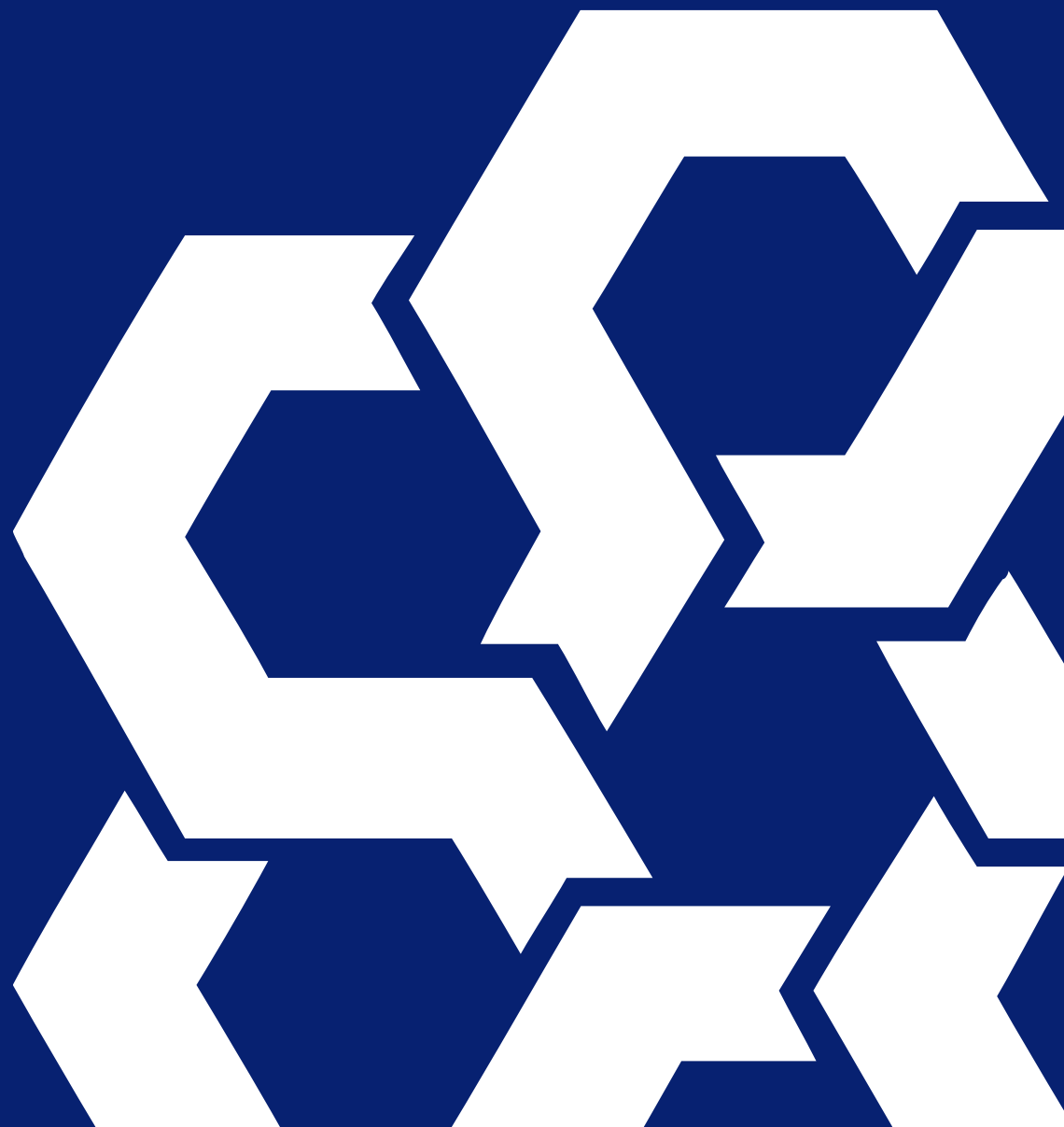
Is your answer to Question 1 different for illustrative examples B and C—factoring and supplier finance arrangements (**slides 11–15**), and why?

Questions for CMAC members

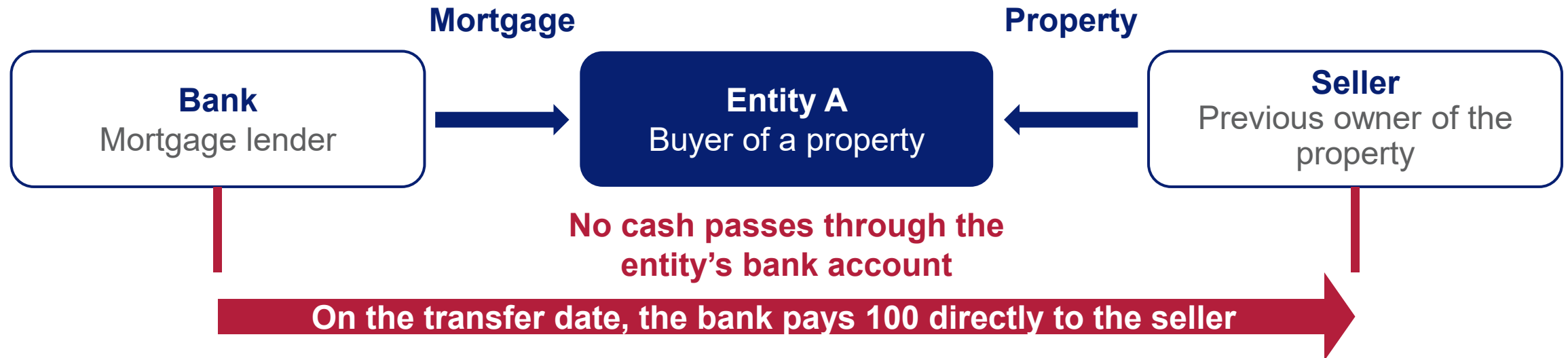
QUESTION 3

On **slides 11 and 13** (illustrative examples B and C—factoring and supplier finance arrangements) we note that some entities could determine that the cash flows from the arrangements are an operating activity—In this case, the cash receipts and payments on behalf of the entity would typically neither be presented in the statement of cash flows nor disclosed as a non-cash transaction from investing or financing activities—that is, the entity would present the single cash flow with the factor (100 in both examples) in operating activities supported only by the additional disclosures on **slide 16**. What are your concerns, if any, with this outcome?

Appendix B—illustrative examples



Illustrative example A (1 of 3)—Fact pattern and assumptions



Assumptions

- The purchase price of 100 is financed in full through the mortgage. We ignore the effect of interest for simplicity.
- The property acquisition is an **investing** activity, and the mortgage is a **financing** activity for Entity A.

Illustrative example A (2 of 3)—Accounting practices and information from proposed disclosures

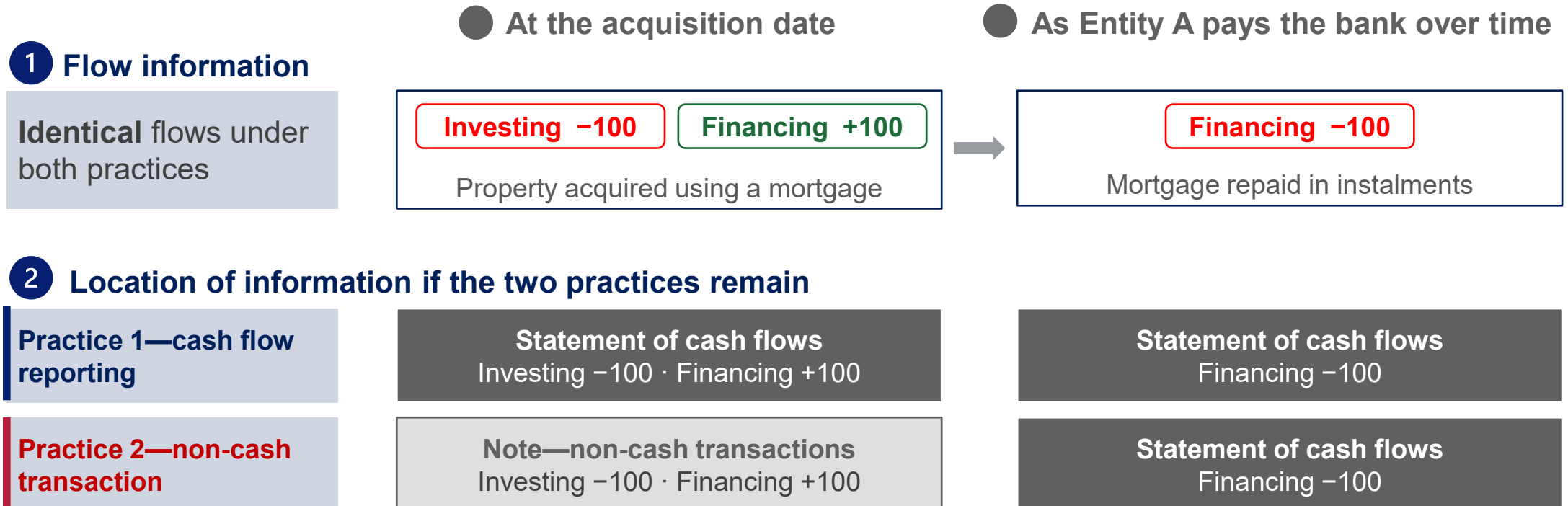
Accounting practice						
Practice 1—cash flow reporting	● Acquisition of the property			→ ● Entity A pays the bank over time		
	A Cash Flow	B Non-Cash Disclosure	C = A+B	A Cash Flow	B Non-Cash Disclosure	C = A+B
Investing	-100	Not in scope of proposed disclosure because these are cash flows		Investing	0	Not in scope of proposed disclosure because these are cash flows
Financing	+100			Financing	-100	
Practice 2—non-cash transaction	● Acquisition of the property			→ ● Entity A pays the bank over time		
	A Cash Flow	B Non-Cash Disclosure	C = A+B	A Cash Flow	B Non-Cash Disclosure	C = A+B
Investing	0	-100	-100	Investing	0	Not in scope of proposed disclosure because these are cash flows
Financing	0	+100	+100	Financing	-100	



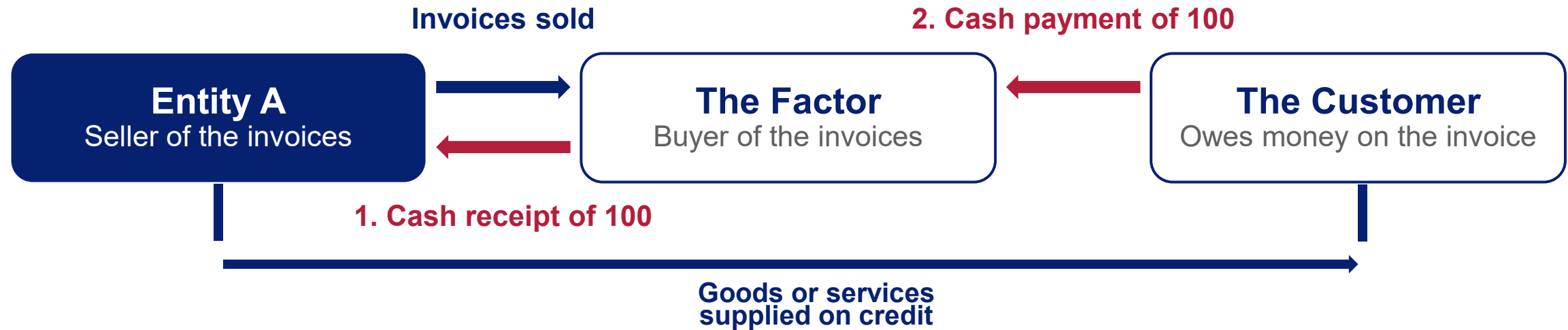
This slide applies equally to examples B and C:
the same outcomes arise, so this analysis is not repeated for those examples.

Illustrative example A (3 of 3)—outcomes of the proposed non-cash transaction disclosures

If the IASB does nothing else, investors will receive the same flow information under both accounting practices—however the location of that information differs



Illustrative example B (1 of 2)—Simplified fact pattern and assumptions



The Customer's payment (2.) goes straight to the Factor—it never passes through Entity A's bank account.

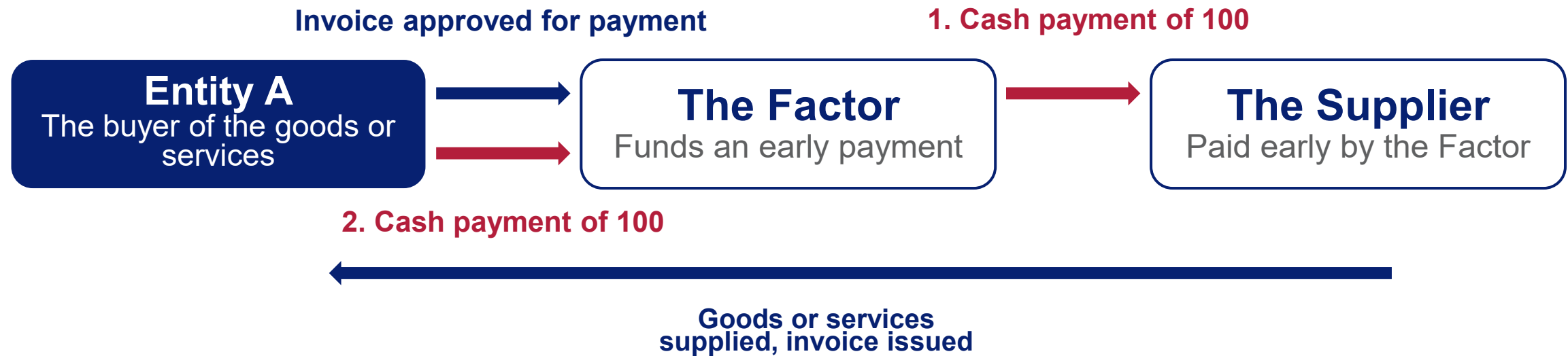
Assumptions

- We ignore factor fees for simplicity.
- The receivables are **not** derecognised in accordance with IFRS 9 *Financial Instruments*. This means that when a customer pays, the receivable is derecognised and a part of the liability is settled.
- The sale of goods and services is an **operating** activity, and the factoring arrangement is a **financing** activity for Entity A. This might not be the case for all factoring arrangements, for example some determine that the factoring arrangement is an operating activity (see **question 3** on **slide 6**).

Illustrative example B (2 of 2)—Accounting practices and information from proposed disclosures

Accounting practice		Slide 15—including existing disclosure requirements when receivables are <u>not</u> derecognised					
Practice 1—cash flow reporting	● Factor pays Entity A			→	● Customer pays the factor		
		A Cash Flow	B Non-Cash Disclosure C = A+B			A Cash Flow	B Non-Cash Disclosure C = A+B
	Operating	0	Not in scope of proposed disclosure because these are cash flows		Operating	+100	Not in scope of proposed disclosure because these are cash flows
	Financing	+100			Financing	-100	
Practice 2—non-cash transaction	● Factor pays Entity A			→	● Customer pays the factor		
		A Cash Flow	B Non-Cash Disclosure C = A+B			A Cash Flow	B Non-Cash Disclosure C = A+B
	Operating	0	Not in scope of proposed disclosure because these are cash flows		Operating	0	+100
	Financing	+100			Financing	0	-100

Illustrative example C (1 of 2)—Simplified fact pattern and assumptions



Assumptions

- The arrangement reflects Entity A's credit rating, so the Supplier is paid earlier and more cheaply than under standard factoring, while Entity A pays on the original due date. We ignore factor fees for simplicity.
- The purchase of goods or services is an **operating** activity, and the reverse factoring is a **financing** activity for Entity A. This might not be the case for all arrangements, for example some determine the supplier finance arrangement is an operating activity (see **question 3** on **slide 6**).

Illustrative example C (2 of 2)—Accounting practices and information from proposed disclosures

Accounting practice		Slide 15—including existing disclosure requirements for <u>all</u> supplier finance arrangements						
Practice 1—cash flow reporting	● Invoice approved / payment 1			→	● Entity A pays the factor / payment 2			
		A Cash Flow	B Non-Cash Disclosure	C = A+B		A Cash Flow	B Non-Cash Disclosure	C = A+B
	Operating	-100	Not in scope of proposed disclosure		Operating	0	Not in scope of proposed disclosure	
	Financing	+100			Financing	-100		
Practice 2—non-cash transaction	● Invoice approved / payment 1			→	● Entity A pays the factor / payment 2			
		A Cash Flow	B Non-Cash Disclosure	C = A+B		A Cash Flow	B Non-Cash Disclosure	C = A+B
	Operating	0	-100	-100	Operating	0	Not in scope of proposed disclosure	
	Financing	0	+100	+100	Financing	-100		

Existing disclosure requirements remain unchanged

The IASB is not planning to change or remove any of the existing disclosure requirements set out below.

Factoring—receivables not derecognised (IFRS 7:42D)

- Types of assets transferred.
- Risks and rewards the entity keeps.
- Relationship and usage restrictions between transferred assets and related debts.
- Fair values of assets, debts and the net difference when creditors only have claims to those assets.
- Carrying amounts of assets and liabilities if assets remain fully recognised.
- Original carrying amounts and remaining carrying amounts of assets and liabilities if assets are partially recognised.

Supplier finance arrangements (IAS 7:44F–44H)

- Terms and conditions of the arrangements, with different terms disclosed separately.
- Start and end balances for liabilities in these arrangements and where they appear on the balance sheet.
- Amount of those liabilities already paid to suppliers by finance providers.
- Payment due dates compared with normal due dates.
- Non-cash changes in the liabilities, such as exchange differences or business combinations.

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