
Payment arrangements with a supplier

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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 from investing and financing activities provide **sufficient** transparency specifically about payment arrangements with a supplier when entities classify the cash payments differently. Payment arrangements are when the payment (or payments) for an asset occurs at a different time to when the asset is acquired.

Supporting material

To help you consider this matter, we include **in Appendix A illustrative examples** and use as a **case study** a situation in which an entity acquires machinery on credit directly from the supplier. The illustrations show how the proposed disclosures for non-cash transactions would work depending on how the entity classifies the cash flows from the deferred payment arrangements.

Note: we include **Illustrative Example A**—an acquisition of machinery on extended credit terms—as a basic example of how the non-cash transaction disclosures work. Our questions focus on the application of those disclosures to **Illustrative Examples B and C**—an acquisition of machinery on normal (short-term) credit terms.

Questions for CMAC members (1 of 2)

QUESTION 1

Considering **Illustrative Examples B and C**—an acquisition on normal (short-term) credit—(**slides 11–18**):

- a. what are your views on the usefulness of disclosing the non-cash transaction at the time of acquisition (comparing alternatives B1/C1 versus B2/C2)?
- b. how do the illustrated disclosures in Examples B versus C align with how you typically think about an acquisition of machinery on normal (short-term) credit?

QUESTION 2

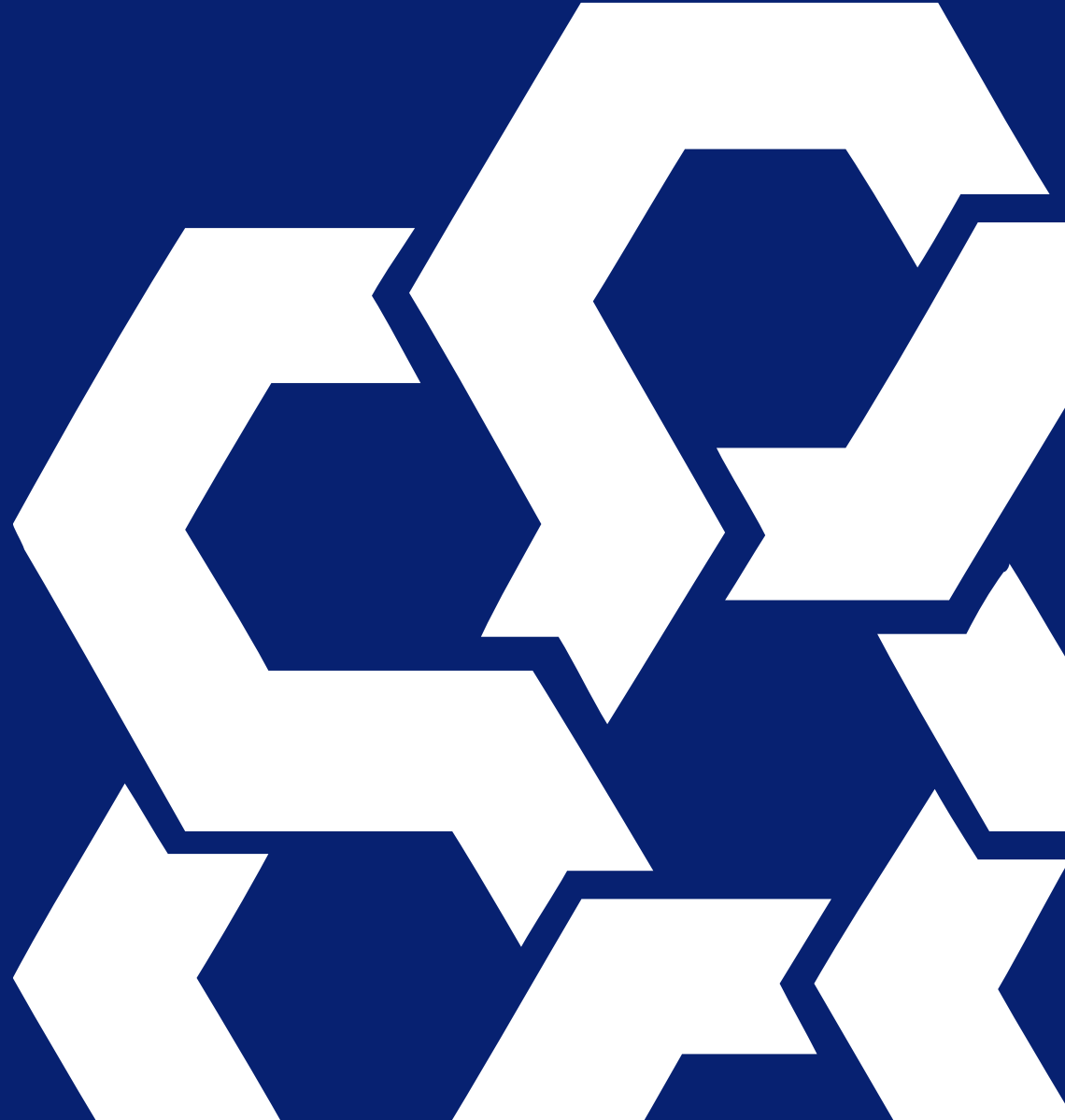
Would you ever consider the line illustrated for the deferred payment liability in **Illustrative Examples B1 and C1** as an operating item? If so, in what circumstances?

Questions for CMAC members (2 of 2)

QUESTION 3

How would your answers to Question 2 change if the non-cash transaction to acquire the machine involved a short-term **prepayment** rather than a deferred payment?

Appendix A—illustrative example



Overview of illustrative examples

A Machinery purchased on extended credit

Slides
8–10

Acquisition as investing activity and deferred payment as financing activity.
Covers acquisition and subsequent payment periods.

B Machinery purchased on normal (short-term) credit

11–14

B1: disclose gross non-cash inflows and outflows for non-cash transaction.
B2: no additional non-cash transaction disclosure.

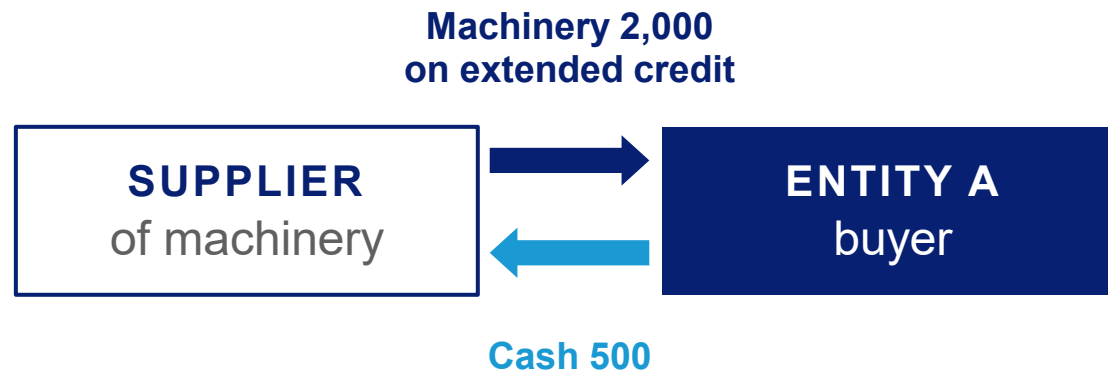
C Machinery purchased in part on normal (short-term) credit

15–18

C1: disclose gross non-cash inflows and outflows for non-cash transaction.
C2: no additional non-cash transaction disclosure.

Illustrative example A (1 of 3): machinery purchased on extended credit

Fact pattern



Payable at year-end: $2,000 - 200 = 1,800$

Timeline

- 1 ACQUISITION**
Entity A acquires machinery of 2,000 on extended credit terms from a supplier.
- 2 CASH PAYMENTS**
Entity A pays 200 of the borrowing during the current reporting period.
- 3 END OF REPORTING PERIOD**
Entity A owes the supplier 1,800, recognised as a payable in its balance sheet.

Assumption

- The amount borrowed from the supplier is **2,000**.
- The acquisition of the machinery is an **investing** activity, and the deferred payment arrangement is a **financing** activity for Entity A.
- We ignore interest payments for simplicity.

Illustrative example A (2 of 3)—period of acquisition

Reporting period of the acquisition	Acquisition = investing Deferred payment = financing		
	A	B	C = A+B
Operating activities			
...			
Investing activities			
Acquisition of machinery on deferred payment terms		(2,000)	(2,000)
Financing activities			
(Decrease) / Increase in deferred payments for machinery	(200)	2,000	1,800

✓ Advantages

Machinery acquisition

- ✓ 2,000 combined outflow is comparable with:
 - Balance sheet
 - PPE reconciliation note

Deferred payments

- ✓ Amounts for deferred payments are comparable with:
 - Balance sheet and statement of cash flows
 - Financing liabilities reconciliation note

A—amounts in the statement of cash flows; **B**—non-cash transactions disclosed; **C**—the combined effect (A + B).

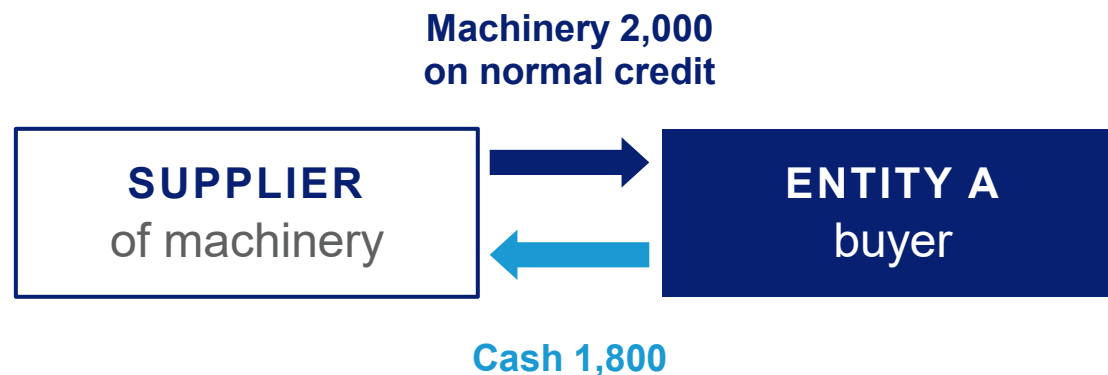
Illustrative example A (3 of 3)—periods of payments (for completeness)

Reporting periods of payments	Acquisition = investing Deferred payment = financing		
	A	B	C = A+B
Operating activities		No additional disclosure because not a non-cash transaction—only a cash payment in this period.	
...			
Investing activities			
Acquisition of machinery on deferred payment terms			
Financing activities			
Decrease in deferred payments for machinery	(1,800)		

A—amounts in the statement of cash flows; **B**—non-cash transactions disclosed; **C**—the combined effect (A + B).

Illustrative example B (1 of 4): machinery purchased on normal credit

Fact pattern



Payable at year-end: $2,000 - 1,800 = 200$

Timeline

- 1 ACQUISITION**
Entity A acquires machinery of 2,000 on normal (short-term) credit from a supplier.
- 2 CASH PAYMENTS**
Entity A pays 1,800 of the amount outstanding during the current reporting period.
- 3 END OF REPORTING PERIOD**
Entity A owes the supplier 200, recognised as a payable in its balance sheet.

Assumption

- The repayment of 1,800 settles the payable arising from the non-cash transactions and is not a cash purchase of the machinery.
- Both the acquisition of the machinery and the settlement of the short-term payable are **investing** activity for Entity A.

Illustrative example B1 (2 of 4)—period of acquisition

Entity discloses the gross inflows and outflows of non-cash transaction.

✓ **Advantages**

✗ **Disadvantage**

Reporting period of the acquisition	Acquisition = investing Deferred payment = investing		
	A	B	C = A+B
Operating activities			
...			
Investing activities			
Acquisition of machinery		(2,000)	(2,000)
Increase in payable for machinery	(1,800)	2,000	200
Financing activities			
...			

Machinery acquisition

- ✓ 2,000 combined outflow is comparable with:
- Balance sheet
 - PPE reconciliation note

Deferred payments

- ✓ 200 net increase for deferred payments liability are comparable with changes in balance sheet.
- ✗ 1,800 paid might be seen as a **cash purchase**—the additional information about the 2,000 might clutter the disclosures.

A—amounts in the statement of cash flows; **B**—non-cash transactions disclosed; **C**—the combined effect (A + B).

Illustrative example B2 (3 of 4)—period of acquisition

Entity discloses no additional non-cash transaction.

✓ **Advantages**

✗ **Disadvantage**

Reporting period of the acquisition	Acquisition = investing Deferred payment = investing		
	A	B	C = A+B
Operating activities			
...			
Investing activities			
Acquisition of machinery	(1,800)	No additional disclosure	
...			
Financing activities			
...			

Machinery acquisition

- ✗ 1,800 cash outflow **might not** be comparable with:
- Balance sheet
 - PPE reconciliation note

Deferred payments

- ✓ the 1,800 payment might be seen **as a cash purchase**—any additional information clutters the disclosures.
- ✗ no link between the statement of cash flows and other information.

A—amounts in the statement of cash flows; **B**—non-cash transactions disclosed; **C**—the combined effect (A + B).

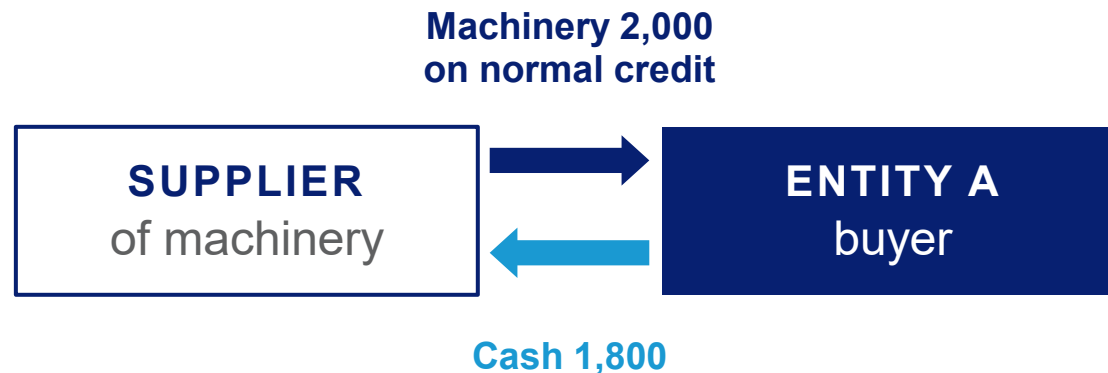
Illustrative example B (4 of 4)—period of final payment (for completeness)

Reporting period of the payment	Acquisition = investing Deferred payment = investing		
	A	B	C = A+B
Operating activities		No additional disclosure because not a non-cash transaction—only a cash payment in this period.	
...			
Investing activities			
Acquisition of machinery	(200)		
Financing activities			
...			

A—amounts in the statement of cash flows; **B**—non-cash transactions disclosed; **C**—the combined effect (A + B).

Illustrative example C (1 of 4): machinery purchased in part on normal credit

Fact pattern



Payable at year-end: $2,000 - 1,800 = 200$

Timeline

- 1 ACQUISITION**
Entity A acquires machinery of 2,000 and obtains credit of 200 from the supplier on normal (short-term) payment terms.
- 2 CASH PAYMENTS**
Entity A pays 1,800 of the purchase price.
- 3 END OF REPORTING PERIOD**
Entity A owes the supplier 200, recognised as a payable in its balance sheet.

Assumption

- The payment of 1,800 is a cash purchase of machinery.
- Both the acquisition of the machinery and the settlement of the related short-term payable is an **investing** activity for Entity A.

Illustrative example C1 (2 of 4)—period of acquisition

Entity discloses the gross inflows and outflows of non-cash transaction.

✓ Advantages

Reporting period of the acquisition	Acquisition = investing Deferred payment = investing		
	A	B	C = A+B
Operating activities			
...			
Investing activities			
Acquisition of machinery	(1,800)	(200)	(2,000)
Increase payable for machinery		200	200
Financing activities			
...			

Machinery acquisition

- ✓ 2,000 combined outflow is comparable with:
- Balance sheet
 - PPE reconciliation note

Deferred payments

- ✓ 200 net increase for deferred payments liability are comparable with changes in balance sheet.

A—amounts in the statement of cash flows; **B**—non-cash transactions disclosed; **C**—the combined effect (A + B).

Illustrative example C2 (3 of 4)—period of acquisition

Option C2: Entity discloses no non-cash transaction **because only investing activities are applicable**.

✓ **Advantages**

✗ **Disadvantage**

Reporting period of the acquisition	Acquisition = investing Deferred payment = investing		
	A	B	C = A+B
Operating activities			
...			
Investing activities			
Acquisition of machinery	(1,800)	No additional disclosure	
...			
Financing activities			
...			

Machinery acquisition

- ✗ 1,800 cash outflow **might not** be comparable with:
- Balance sheet
 - PPE reconciliation note

Deferred payments

- ✓ No additional information that clutters the disclosures.
- ✗ no link between the statement of cash flows and other information.

A—amounts in the statement of cash flows; **B**—non-cash transactions disclosed; **C**—the combined effect (A + B).

Illustrative example C (4 of 4)—period of final payment (for completeness)

Reporting period of the payment	Acquisition = investing Deferred payment = investing		
	A	B	C = A+B
Operating activities		No additional disclosure because not a non-cash transaction—only a cash payment in this period.	
...			
Investing activities			
Settlement of payable for machinery	(200)		
Financing activities			
...			

A—amounts in the statement of cash flows; **B**—non-cash transactions disclosed; **C**—the combined effect (A + B).

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