IFRS Accounting

Staff paper

Agenda reference: 4B

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 offer a **practical** way to address information 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 7**).*

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 6–14**).

- As we noted in Agenda Paper 4A, discussions by the IASB of possible further standard-setting (if any) will focus on any needs that the proposed disclosures would leave unresolved.

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 GPF members

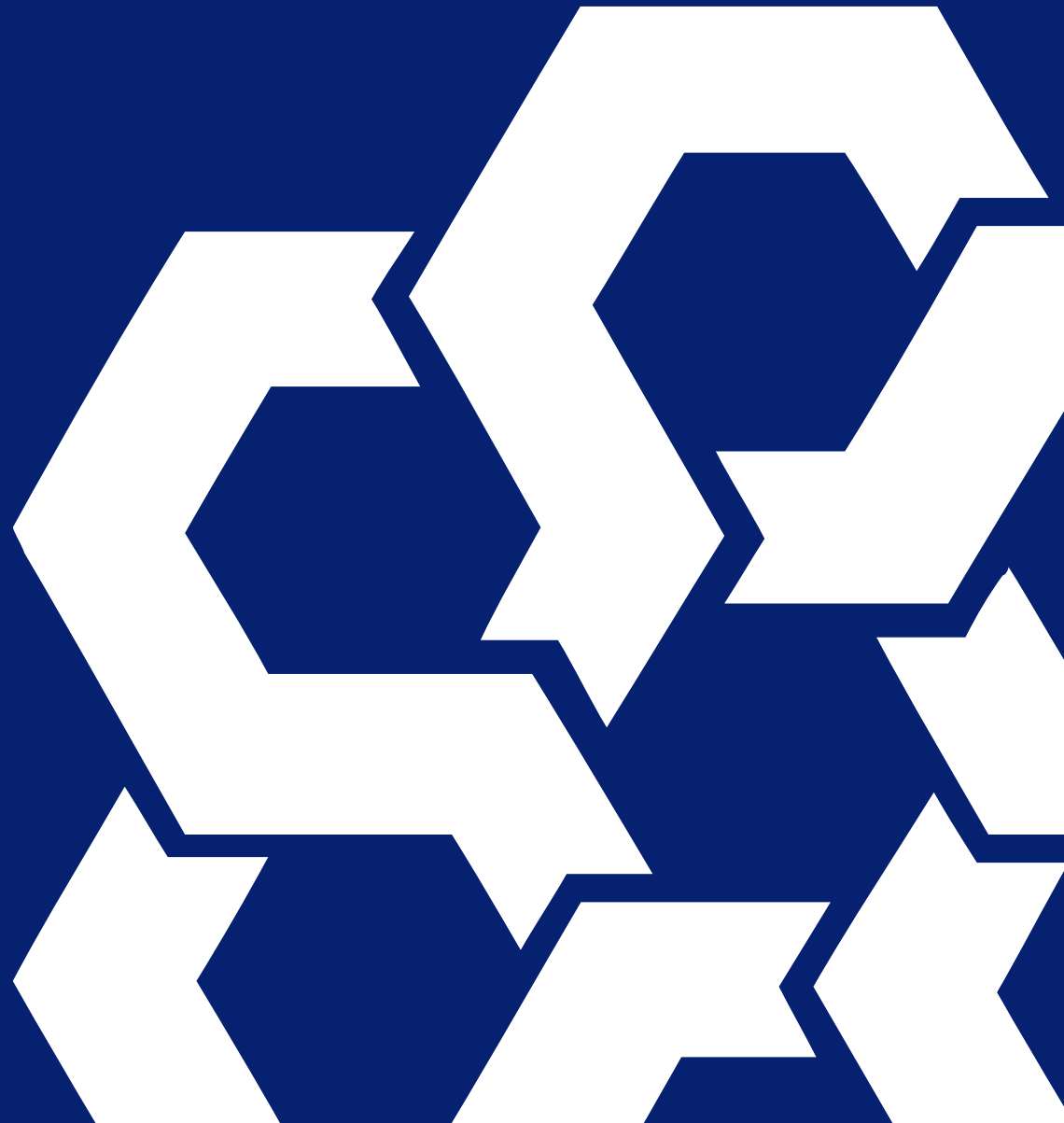
QUESTION 1

Considering the three Illustrative Examples in **Appendix A** (**slides 6–14**), based on your experience, how do you currently determine whether, and where, **cash and/or non-cash flows** are presented or disclosed?

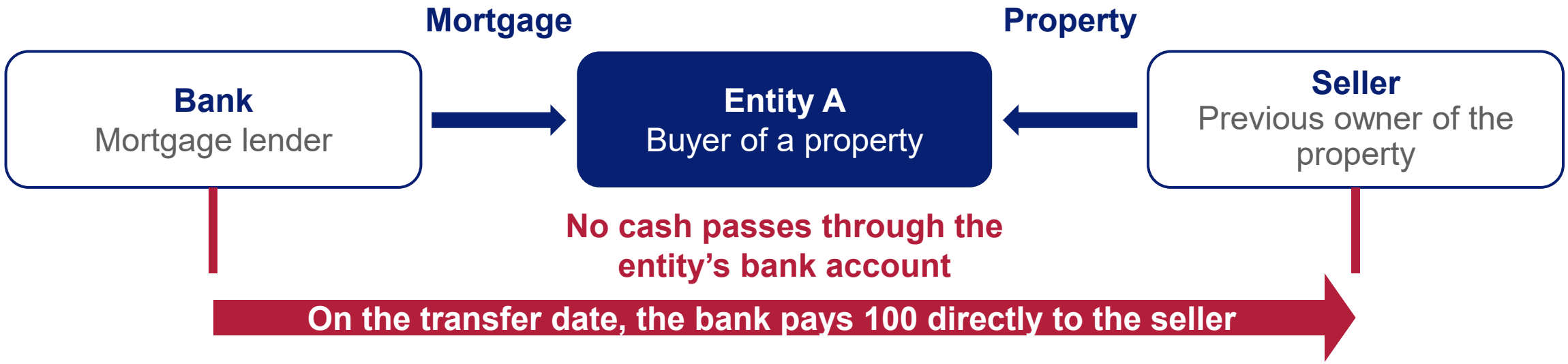
QUESTION 2

If the IASB were to specify a particular single classification for the **cash flows** from these three arrangements, what practical considerations (if any) do you think could arise?

Appendix A—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

Practice 1—cash flow reporting

Acquisition of the property

	A Cash Flow	B Non-Cash Disclosure	C = A+B
Investing	-100	Not in scope of proposed disclosure because these are cash flows	
Financing	+100		

Entity A pays the bank over time

	A Cash Flow	B Non-Cash Disclosure	C = A+B
Investing	0	Not in scope of proposed disclosure because these are cash flows	
Financing	-100		

Practice 2–non-cash transaction

Acquisition of the property

	A Cash Flow	B Non-Cash Disclosure	C = A+B
Investing	0	-100	-100
Financing	0	+100	+100

Entity A pays the bank over time

	A Cash Flow	B Non-Cash Disclosure	C = A+B
Investing	0	Not in scope of proposed disclosure because these are cash flows	
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, companies would disclose the same flow information under both accounting practices—however the location of that information differs

1 Flow information

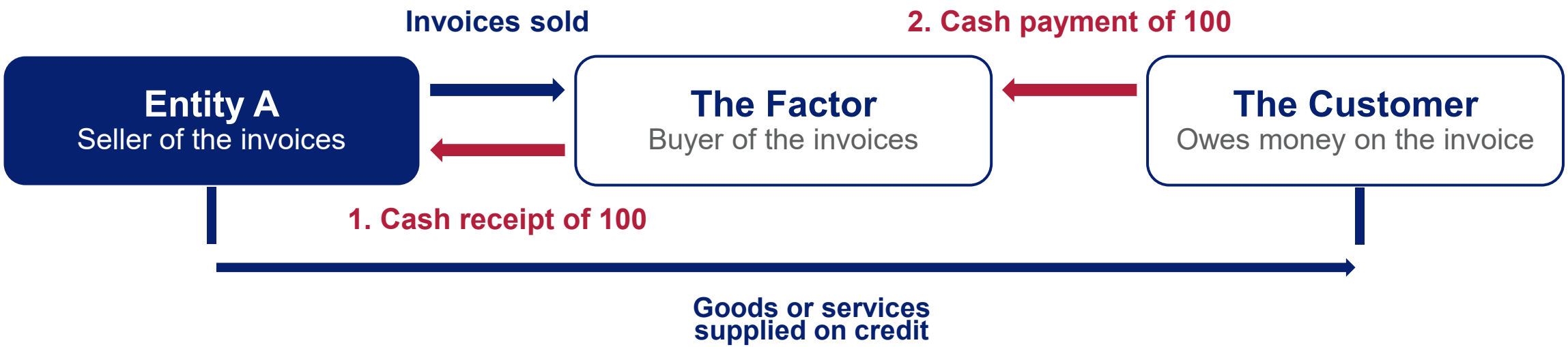
Identical flows under both practices

	At the acquisition date	As Entity A pays the bank over time
	Investing −100 · Financing +100 Property acquired using a mortgage	Financing −100 Mortgage repaid in instalments

2 Location of information if the two practices remain

Practice 1—cash flow reporting	**Statement of cash flows** Investing −100 · Financing +100	**Statement of cash flows** Financing −100
Practice 2—non-cash transaction	**Note—non-cash transactions** Investing −100 · Financing +100	**Statement of cash flows** Financing −100

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 2** on **slide 5**).

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

Slide 14—includes existing disclosure requirements when receivables are **not** derecognised

Practice 1—cash flow reporting

Factor pays Entity A

	A Cash Flow	B Non-Cash Disclosure	C = A+B
Operating	0	Not in scope of proposed disclosure because these are cash flows	
Financing	+100		

Customer pays the factor

	A Cash Flow	B Non-Cash Disclosure	C = A+B
Operating	+100	Not in scope of proposed disclosure because these are cash flows	
Financing	-100		

Practice 2–non-cash transaction

Factor pays Entity A

	A Cash Flow	B Non-Cash Disclosure	C = A+B
Operating	0	Not in scope of proposed disclosure because these are cash flows	
Financing	+100		

Customer pays the factor

	A Cash Flow	B Non-Cash Disclosure	C = A+B
Operating	0	+100	+100
Financing	0	-100	-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 2** on **slide 5**).

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

Slide 14—includes existing disclosure requirements for **all** supplier finance arrangements

Practice 1—cash flow reporting

Invoice approved / payment 1

	A Cash Flow	B Non-Cash Disclosure	C = A+B
Operating	-100	Not in scope of proposed disclosure	
Financing	+100		

Entity A pays the factor / payment 2

	A Cash Flow	B Non-Cash Disclosure	C = A+B
Operating	0	Not in scope of proposed disclosure	
Financing	-100		

Practice 2–non-cash transaction

Invoice approved / payment 1

	A Cash Flow	B Non-Cash Disclosure	C = A+B
Operating	0	-100	-100
Financing	0	+100	+100

Entity A pays the factor / payment 2

	A Cash Flow	B Non-Cash Disclosure	C = A+B
Operating	0	Not in scope of proposed disclosure	
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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