IFRS Accounting

Staff paper

Agenda reference: 4C

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 offer a **practical** way to provide transparency specifically about payment arrangements with a supplier when entities classify the cash payment 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.

- 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.

Questions for GPF 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 practicality 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 GPF 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

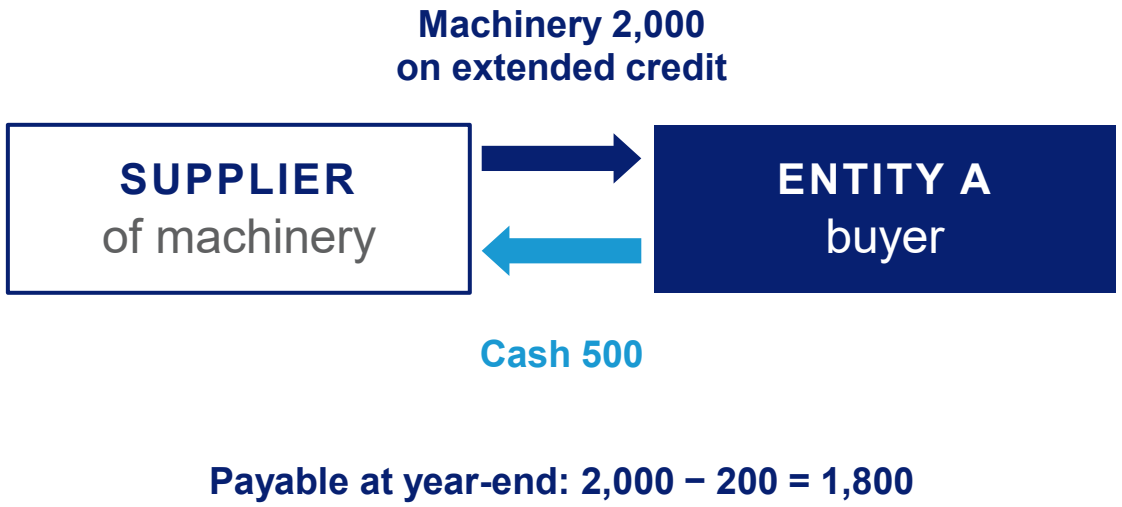
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Overview of illustrative examples

	Slides
A Machinery purchased on extended credit	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 liability 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**

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

✓ 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

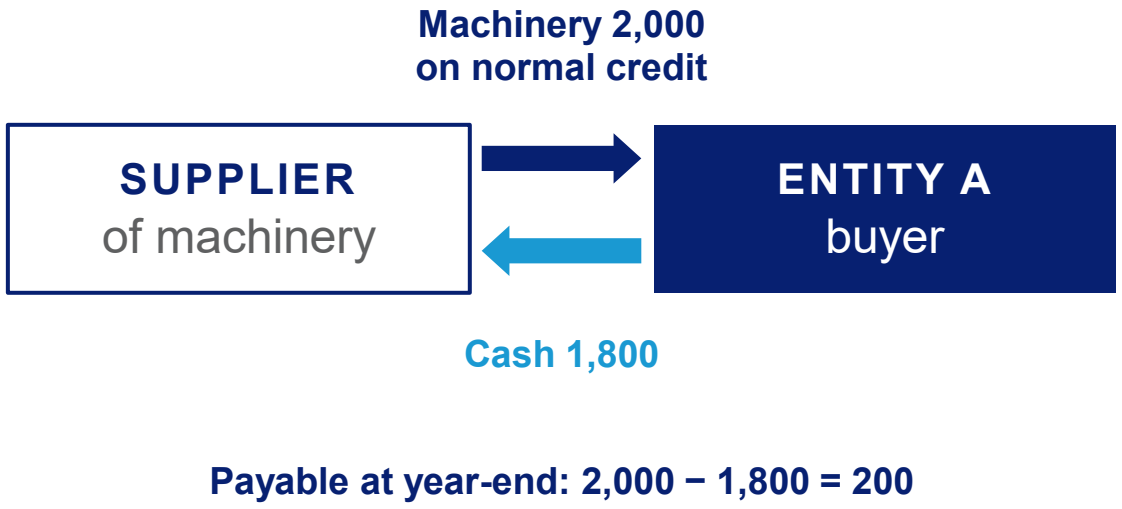
Illustrative example A (3 of 3)—periods of payments (for completeness)

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 an **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.

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			
…			

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

✓ **Advantages**

✕ **Disadvantage**

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.

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

Entity discloses no additional non-cash transaction.

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			
…			

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

✓ **Advantages**

✕ **Disadvantage**

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.

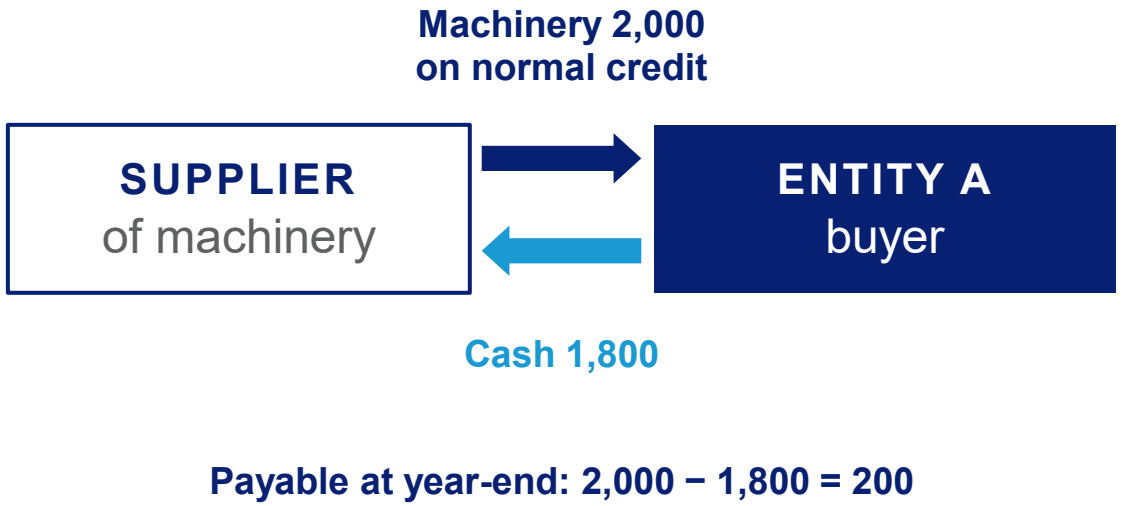
Illustrative example B (4 of 4)—period of final payment (for completeness)

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.

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			
…			

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

✓ **Advantages**

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.

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

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

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			
…			

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

✓ **Advantages**

✕ **Disadvantage**

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.

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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