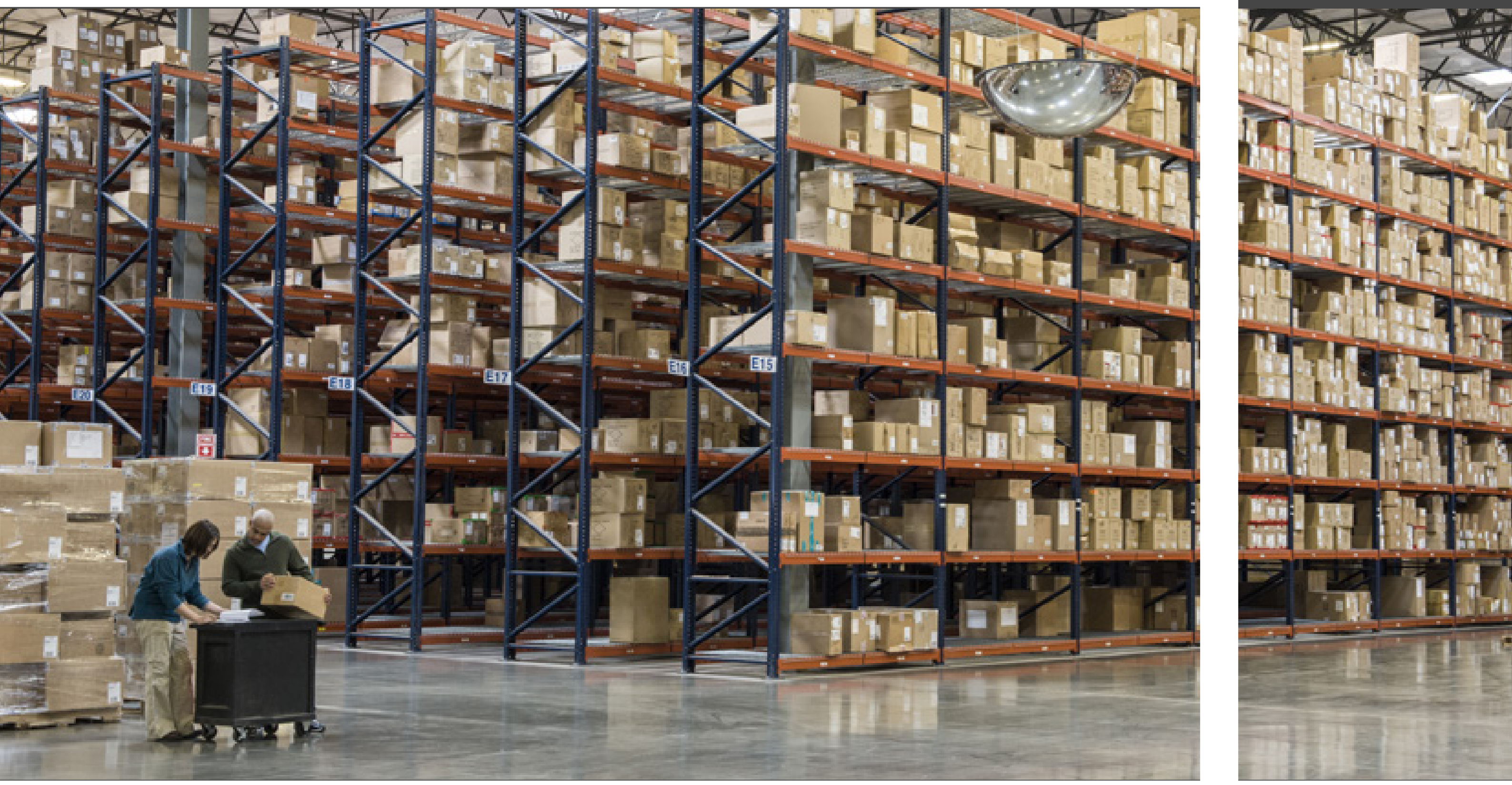
Guidance on the supplier financing arrangements

Financial reporting considerations

December 2021



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Introduction

In recent years, there has been an increased use of supplier financing (or also commonly referred as reverse factoring) arrangements. In December 2020, the IFRS IC issued an agenda decision (IFRIC AD) covering several financial reporting considerations relating to supplier financing arrangements. Although no specific amendment or new standard issued by IASB to address accounting on supplier financing, IFRIC AD can be used as a technical basis for financial reporters who have supplier financing arrangements.

This practical guide is written based on principles provided in the IFRIC AD and is designed to help financial reporters in understanding some issues that might need to be considered when determining the appropriate presentation and disclosure for their supplier financing arrangements. These arrangements may lead to a wide-ranging impact on working capital, covenant ratios, net debt and other disclosures, as well as cash flow presentation.

Table of Contents

Introduction 1

Highlights 3

Background 3

IFRIC agenda decision – Supply chain financing arrangements 3

When does the agenda decision apply? 3

Possible future standard setting by the IASB 4

Key financial reporting considerations for supplier financing arrangements 5

Derecognition of the trade payable 6

Presentation in the statement of financial position 8

Presentation in the statement of cash flows 10

Disclosures 12

IFRS 7/PSAK 60 Financial instruments disclosures 12

IAS 1/PSAK 1 additional disclosures 13

IAS 7/PSAK 60 Disclosure of the reconciliation of the change in liabilities arising from financing activities 13

Consideration for Tax Reporting 14

Examples of supplier finance arrangements 15

Final thoughts 17

Highlights

Background

Supplier finance is often referred to as reverse factoring. It involves three parties: a supplier who supplies goods; the buyer; and a bank or financier ('bank'). The bank offers to facilitate payments of the trade payables arising between the buyer and supplier, and it might provide finance so that the supplier can be paid earlier (and/or the buyer can pay later) than the normal due date of the trade payables. The typical process is as follows:

1. The supplier delivers goods to the buyer, and a trade payable (for the buyer) and a trade receivable (for the supplier) are originated.
2. The buyer 'confirms' the trade payable – that is, it confirms the amount, the due date and the fact that goods have been delivered and/or that it will pay the trade payable by the date agreed with the bank (depending on the arrangement in place, this might be by the due date or later).
3. The supplier's trade receivable is assigned or novated to the bank.
4. The supplier receives cash for its trade receivable from the bank, either at the original due date or earlier.
5. The buyer pays the bank, typically on or after the due date of the invoice.

IFRIC agenda decision – Supply chain financing arrangements

The IFRS Interpretations Committee (IC) received a request asking: (1) how to present liabilities to pay for goods or services received when the related invoices are part of a supplier financing arrangement; and (2) what information to disclose about supplier financing arrangements in the financial statements.

In December 2020, the IC issued an agenda decision. The IC concluded that the principles and requirements in the IFRS standards provide an adequate basis to determine the presentation of liabilities, the presentation of the related cash flows, and the disclosures relating to supplier financing arrangements. Consequently, the IC decided not to add supplier financing to its work plan.

When does the agenda decision apply?

The agenda decision has no formal effective date. The IC has noted that agenda decisions might often result in explanatory material that was not previously available, which might cause an entity to change an accounting policy. The IASB expects that an entity would be entitled to sufficient time to make that determination and to implement any change, but it also notes that any change would be implemented on a timely basis. Determining how much time is sufficient to make an accounting policy change is a matter of judgement that depends on an entity's particular facts and circumstances. Any change in policy should be applied retrospectively and disclosed in accordance with IAS 8, and comparative amounts should be restated. The requirements with respect to an opening statement of financial position, where an accounting policy is applied retrospectively, should also be considered.

Possible future standard setting by the IASB

Respondents to the tentative agenda decision provided input on possible standard setting that the IASB could undertake relating to supplier financing arrangements. The Board will consider at a future Board meeting whether it will undertake any future standard setting.

PwC Insight

Although IFRIC AD is written in the context of IFRS, we believe that its thought process and technical consideration is also relevant for financial statements prepared under PSAK. This is because PSAK has harmonised itself with IFRS and some standards that are referred to by the IFRIC AD have been adopted in PSAK level. As such, in the next section, we will use IFRS and PSAK interchangeably.

Key financial reporting considerations for supplier financing arrangements

The buyer's financial statements should present fairly its financial position, financial performance and cash flows. Fair presentation requires the faithful representation of the effects of supplier financing arrangements in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. [IAS 1/PSAK 1 para 15].

The accounting for supplier financing arrangements might require the use of judgement. Separate presentation of liabilities arising from supplier financing arrangements is required where these are sufficiently different in nature or function, or where relevant to an understanding of the entity's financial position [IAS 1/PSAK 1 paras 29, 54, 55, 57, 58]. Entities will also need to make clear and transparent disclosures regarding these arrangements, where material, as well as explain any judgements made. The IC noted in its agenda decision that making materiality judgements involves both quantitative and qualitative considerations.

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Materiality depends on the nature or magnitude of information, or both. The assessment of whether information, either individually or in combination with other information, is material is made in the context of the financial statements taken as a whole.

PwC Observation

Users are keen to understand the size and key terms of supplier finance arrangements, and it will be important to take this into consideration when considering materiality of such arrangements. Where these arrangements are determined to be material, entities should be transparent about them in their financial reporting.

Derecognition of the trade payable

IFRIC Agenda Decision – Derecognition of a financial liability

An entity assesses whether and when to derecognise a liability that is (or becomes) part of a reverse factoring arrangement applying the derecognition requirements in IFRS 9/PSAK 71 Financial Instruments. An entity that derecognises a trade payable to a supplier and recognises a new financial liability to a financial institution applies IAS 1/PSAK 1 in determining how to present that new liability in its statement of financial position (see ‘Presentation in the statement of financial position’).

For the buyer, a key issue is whether it should derecognise its original liability (that is, the trade payable to the supplier) and recognise a new liability to the bank. If the trade payable is derecognised, the buyer:

- recognises a new financial liability at fair value; and
- recognises a gain or loss based on the difference between the carrying amount of the original financial liability and the fair value of the new financial liability.

The buyer will apply IFRS 9/PSAK 71’s derecognition requirements when assessing whether and when to derecognise the trade payable.

If the buyer concludes that the trade payable to the supplier is derecognised and it recognises a new financial liability to the bank, it will apply IAS 1/PSAK 1 in determining how to present the new financial liability in its statement of financial position (see Section 4).

Under IFRS 9/PSAK 71, a financial liability (trading or other) is removed from the balance sheet when it is extinguished (that is, when the obligation is discharged, is cancelled or expires). [IFRS 9/PSAK 71 para 3.3.1].

A financial liability (or part of it) is extinguished when the debtor either:

- discharges the liability (or part of it) by paying the creditor (normally with cash, other financial assets, goods or services); or
- is legally released from primary responsibility for the liability (or part of it), either by process of law or by the creditor.

[IFRS 9/PSAK 71 App B para B3.3.1].

Additionally, under IFRS 9/PSAK 71, a substantial modification of the terms of an existing financial liability (or a part of it) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. [IFRS 9/PSAK 71 para 3.3.2].

Entities therefore need to assess whether the supplier financing arrangement modifies the trade payable substantially, such that it should be considered a new arrangement. In particular, the existence of a supplier financing arrangement could alter the economics of the payable substantially, such that it may be determined, from an accounting perspective, that the original obligation has been extinguished and a new obligation has been created.

The following list of questions and indicators is not exhaustive, but it will aid in the assessment of whether the supplier financing arrangement results in the derecognition of the trade payables in accordance with IFRS 9/PSAK 71:

1. Has the invoice been assigned or novated to the bank? The terms ‘novation’ and ‘assignment’ might not have the same legal interpretation in all jurisdictions, and so the specific terms of the agreement should be reviewed and legal advice obtained if necessary
2. What is the purpose of the introduction of supplier finance?
3. Has the supplier finance arrangement been introduced in conjunction with a change in payment terms such as a change in dates?
4. Who negotiates the terms of the supplier finance arrangement?
5. Does the buyer receive any fees or other payments from the bank, or make any payments to the bank other than payment of the original invoice under its terms?
6. Has the parent or another group entity entered into joint and several liability, a cross-default clause or a guarantee over a subsidiary’s payables in conjunction with the supplier finance arrangement? Such a clause might apply in the ordinary course of business or on a change of control.
7. Is there, in substance or in practice, a tripartite agreement between the supplier, buyer and bank?
8. Will the arrangement affect the timing of cash flows of the buyer with respect to the timing of payment, recognition of early payment discounts, treatment of credit notes and payment of late interest?
9. Does the buyer have the option to determine when to pay?
10. Does the arrangement provide the bank with the right to draw on the buyer’s existing bank accounts in the event of non-payment?
11. Is there acceleration of payment on specified events of default?
12. Does the arrangement count towards the utilisation of a line of credit that the buyer has in place with the bank?

The answers to those questions, as well as any other indicators that the nature of the trade payable has changed, need to be considered together to gain an understanding of the substance of the arrangement and whether the original trade payable should be derecognised or not.

While the analysis should consider the indicators in totality, some indicators might carry more weight than others – for example, the inclusion of jointly and severally liable or cross-default clauses or guarantees is an important indicator that the original trade payable should be derecognised.

Presentation in the statement of financial position

IFRIC agenda decision – Presentation in the statement of financial position

IAS 1 Presentation of Financial Statements specifies how an entity is required to present its liabilities in the statement of financial position.

Paragraph 54 of IAS 1 requires an entity to present 'trade and other payables' separately from other financial liabilities. 'Trade and other payables' are sufficiently different in nature or function from other financial liabilities to warrant separate presentation (paragraph 57 of IAS 1). Paragraph 55 of IAS 1 requires an entity to present additional line items (including by disaggregating the line items listed in paragraph 54) when such presentation is relevant to an understanding of the entity's financial position. Consequently, an entity is required to determine whether to present liabilities that are part of a reverse factoring arrangement:

a. within trade and other payables;
b. within other financial liabilities; or
c. as a line item separate from other items in its statement of financial position.

Paragraph 11(a) of IAS 37 Provisions, Contingent Liabilities and Contingent Assets states that 'trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier'. Paragraph 70 of IAS 1 explains that 'some current liabilities, such as trade payables… are part of the working capital used in the entity's normal operating cycle'. The Committee therefore concluded that an entity presents a financial liability as a trade payable only when it:

a. represents a liability to pay for goods or services;
b. is invoiced or formally agreed with the supplier; and
c. is part of the working capital used in the entity's normal operating cycle.

Paragraph 29 of IAS 1 requires an entity to 'present separately items of a dissimilar nature or function unless they are immaterial'. Paragraph 57 specifies that line items are included in the statement of financial position when the size, nature or function of an item (or aggregation of similar items) is such that separate presentation is relevant to an understanding of the entity's financial position. Accordingly, the Committee concluded that, applying IAS 1, an entity presents liabilities that are part of a reverse factoring arrangement:

a. as part of 'trade and other payables' only when those liabilities have a similar nature and function to trade payables—for example, when those liabilities are part of the working capital used in the entity's normal operating cycle.
b. separately when the size, nature or function of those liabilities makes separate presentation relevant to an understanding of the entity's financial position. In assessing whether it is required to present such liabilities separately (including whether to disaggregate trade and other payables), an entity considers the amounts, nature and timing of those liabilities (paragraphs 55 and 58 of IAS 1).

The Committee observed that an entity assessing whether to present liabilities that are part of a reverse factoring arrangement separately might consider factors including, for example:

a. whether additional security is provided as part of the arrangement that would not be provided without the arrangement.
b. the extent to which the terms of liabilities that are part of the arrangement differ from the terms of the entity's trade payables that are not part of the arrangement.

Where the original liability to a supplier has been extinguished or substantially modified, in accordance with paragraph 3.3.1 or 3.3.2 of IFRS 9/PSAK 71, the liability to the bank would typically be presented as bank financing or under another suitable heading rather than 'trade payables'.

Even where the original liability has not been derecognised, the buyer should consider the requirements of paragraphs 54 and 55 of IAS 1/PSAK 1 to determine whether the presentation within 'trade and other payables' is still appropriate.

The description of the chosen line item needs to be carefully considered, to ensure that the entity's financial position is presented fairly, in a way that faithfully represents the effect of the transaction, as required by paragraph 15 of IAS 1/PSAK 1, and reflects the information that might be relevant to the users of the financial statements. In particular, similar items should be presented together, and they should not be presented with dissimilar items; the overall effect should not be misleading.

The list of questions in the previous section might be helpful in determining whether the nature or function of the liability warrants separate presentation in situations where the trade payable is not derecognised.

Presentation in the statement of cash flows

IFRIC agenda decision – Presentation in the statement of cash flows

Paragraph 6 of IAS 7 Statement of Cash Flows defines:

a. operating activities as ‘the principal revenue-producing activities of the entity and other activities that are not investing or financing activities’; and

b. financing activities as ‘activities that result in changes in the size and composition of the contributed equity and borrowings of the entity’.

An entity that has entered into a reverse factoring arrangement determines how to classify cash flows under the arrangement, typically as cash flows from operating activities or cash flows from financing activities. The Committee observed that an entity’s assessment of the nature of the liabilities that are part of the arrangement may help in determining whether the related cash flows arise from operating or financing activities. For example, if the entity considers the related liability to be a trade or other payable that is part of the working capital used in the entity’s principal revenue-producing activities, the entity presents cash outflows to settle the liability as arising from operating activities in its statement of cash flows. In contrast, if the entity considers that the related liability is not a trade or other payable because the liability represents borrowings of the entity, the entity presents cash outflows to settle the liability as arising from financing activities in its statement of cash flows.

Investing and financing transactions that do not require the use of cash or cash equivalents are excluded from an entity’s statement of cash flows (paragraph 43 of IAS 7). Consequently, if a cash inflow and cash outflow occur for an entity when an invoice is factored as part of a reverse factoring arrangement, the entity presents those cash flows in its statement of cash flows. If no cash inflow or cash outflow occurs for an entity in a financing transaction, the entity discloses the transaction elsewhere in the financial statements in a way that provides all the relevant information about the financing activity (paragraph 43 of IAS 7).

The agenda decision does not conclude on what is considered a cash flow for an entity. Judgement might be required to determine how the supplier finance arrangement is presented in the statement of cash flows.

Paragraph 6 of IAS 7/PSAK 2 defines cash flows as ‘inflows and outflows of cash and cash equivalents’ but IAS 7/PSAK 2 provides no further guidance to assist an entity in determining whether a cash flow occurs.

The IFRS IC did not provide any further guidance on how an entity might determine whether it was a party to a cash flow. The agenda decision simply stated ‘if a cash inflow and cash outflow occur for an entity when an invoice is factored’; the agenda decision was not explicit about whether the cash flow is required to flow through the entity’s own bank account in order to reflect it in the cash flow statement.

This means that, when a reverse factoring arrangement is entered into with a financial institution, the buyer could recognise a financing cash inflow and an operating cash outflow only if those cash flows represent the cash flows of the entity. This might be appropriate when the financial institution settles the invoice as a payment agent on behalf of the buyer.

Cash flows are generally seen as movements in the entity's bank account. In some cases, an entity might still incur a cash flow, even though the cash does not flow through the entity's bank account. This would be the case where the entity directs another party to transfer the cash on its behalf. In the case of a supplier financing arrangement, judgement will need to be exercised when making this assessment.

Entities should consider disclosing information about how they have presented the cash flows from these arrangements, including any significant judgements made in this determination.

Furthermore, where the settlement of a financing transaction is a non-cash transaction, the entity should disclose these non-cash transactions in accordance with paragraph 43 and 44A of IAS 7/PSAK 2.

Entities are required to disclose changes in liabilities arising from financing activities when complying with paragraphs 44A–44E of IAS 7/PSAK 2. This includes paragraph 44C, which explains that these requirements apply to liabilities arising from financing activities which are "liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities …". Therefore, an entity that enters into a supplier financing arrangement that presents cash flows in financing activities is required to explain the change in the related liability.

Disclosures

IFRS 7/PSAK 60 Financial instruments disclosures

IFRIC agenda decision – Notes to the financial statements

Paragraph 31 of IFRS 7 Financial Instruments: Disclosures requires an entity to provide information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed. IFRS 7 defines liquidity risk as 'the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset'. The Committee observed that reverse factoring arrangements often give rise to liquidity risk because:

a. the entity has concentrated a portion of its liabilities with one financial institution rather than a diverse group of suppliers. The entity may also obtain other sources of funding from the financial institution providing the reverse factoring arrangement. If the entity were to encounter any difficulty in meeting its obligations, such a concentration would increase the risk that the entity might have to pay a significant amount, at one time, to one counterparty.

b. the entity may have become reliant on extended payment terms or the entity's supplier may have become accustomed to, or reliant on, earlier payment under the reverse factoring arrangement. If the financial institution were to withdraw the reverse factoring arrangement, that withdrawal could affect the entity's ability to settle liabilities when they are due, particularly if the entity were already in financial distress.

Paragraphs 33–35 of IFRS 7 require an entity to disclose how exposures to risk arising from financial instruments, including liquidity risk, arise; the entity's objectives, policies and processes for managing the risk; summary quantitative data about the entity's exposure to liquidity risk at the end of the reporting period (including further information if this data is unrepresentative of the entity's exposure to liquidity risk during the period); and concentrations of risk. Paragraphs 39 and B11F of IFRS 7 specify further requirements and factors an entity might consider in providing liquidity risk disclosures.

PwC Observation

The liquidity risk disclosures should also consider the financial condition of the financial institution that provides the supplier financing and the extent of the buyer's reliance on continued availability of the supplier finance arrangement. An understanding of the consequences for the buyer, and of the likelihood of the supplier financing arrangement becoming unavailable, might be relevant to users of the financial statements.

IAS 1/PSAK 1 additional disclosures

IFRIC agenda decision – Notes to the financial statements

An entity applies judgement in determining whether to provide additional disclosures in the notes about the effect of reverse factoring arrangements on its financial position, financial performance and cash flows. The Committee observed that:

a. assessing how to present liabilities and cash flows related to reverse factoring arrangements may involve judgement. An entity discloses the judgements that management has made in this respect if they are among the judgements made that have the most significant effect on the amounts recognised in the financial statements (paragraph 122 of IAS 1).

b. reverse factoring arrangements may have a material effect on an entity's financial statements. An entity provides information about reverse factoring arrangements in its financial statements to the extent that such information is relevant to an understanding of any of those financial statements (paragraph 112 of IAS 1).

The Committee noted that making materiality judgements involves both quantitative and qualitative considerations.

IAS 7/PSAK 60 Disclosure of the reconciliation of the change in liabilities arising from financing activities

IFRIC agenda decision – Notes to the financial statements

Paragraph 44A of IAS 7 requires an entity to provide 'disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes'. The Committee noted that such disclosure is required for liabilities that are part of a reverse factoring arrangement if the cash flows for those liabilities were, or future cash flows will be, classified as cash flows from financing activities.

Consideration for Tax Reporting

What is the CIT implication if the payables are presented as bank borrowing or trade payables to the supplier?

Debt to equity ratio affects the amount of Corporate Income Tax (CIT) imposition. As stipulated in the Minister of Finance Regulation (PMK) No. 169/PMK.010/2015 concerning Determination of the Comparison between Debt and Company Capital for the Purpose of Calculation of Income Tax, a single ratio of 4:1 is generally applicable, which means the amount of debt allowable in order to obtain full deductibility of the financing cost is limited to four times the equity amount. Exemption applies to certain taxpayers.

If a company has a debt to equity ratio exceeding 4:1, the borrowing costs in calculating the income tax that can be calculated are limited to borrowing costs in accordance with a 4:1 ratio.

The above borrowing costs include interest on loans, expenses in finance leases, discounts/premiums, additional costs related to debt, compensation for guarantees for repayment of debts and foreign exchange differences due to foreign currency loans.

In the supplier finance arrangement, the classification of payables, either as loan to bank or trade payables to suppliers can affect the debt to equity ratio. The buyer needs to include the supplier finance payables in their debt to equity ratio if it is classified as loan to the bank. This will affect the deductible expense in the CIT calculation if the debt to equity ratio including the supplier finance payables is higher than 4 times equity owned by the buyer.

In October 2021, the government issued the Harmonisation of Tax Regulations. As stipulated in the Article 18(1), the ministry of finance added a new method to set limits on the amount of borrowing costs that can be charged for tax calculation purposes, i.e. percentage of EBITDA.

In the supplier finance arrangement, the classification of payables, either as loan to bank or trade payables to suppliers can affect the percentage of EBITDA. The buyer needs to include the fees paid to the bank from supplier finance payables in their finance costs if it is classified as loan to the bank. This will also affect the deductible expense in the CIT calculation if the percentage of EBITDA including the supplier finance fees is higher than the threshold set by the government.

What is the VAT implication if the payables are presented as bank borrowing or trade payables to the supplier?

Value Added Tax (VAT) is typically due on events involving the transfer of taxable goods or the provision of taxable services in the Indonesian Customs Area. Article 4A para 3d of VAT Law stipulates that financial services are included in the non-taxable services, including financing services. **Therefore, whether the payables are presented as bank borrowing or trade payables will not give any impact to the VAT. The VAT is subject to the goods provided by the supplier.**

Examples of supplier finance arrangements

Supplier finance arrangements might be structured in a variety of ways. Below are some examples of common arrangements:

Example 1: Buyer looking to obtain an early payment discount

On the direction of the buyer, the bank pays the supplier before the legal due date, to obtain an early payment discount. The payment results in a legal release of the buyer from its obligation to pay the supplier. The buyer has an obligation to repay the bank for the amount that the bank has paid to the supplier, together with interest and fees. The terms of this repayment are set such that the buyer and bank share the benefit resulting from the early payment discount.

The obligation between the buyer and supplier is legally extinguished. The trade payable is therefore derecognised under IFRS 9, and a new liability to the bank is recognised.

The IC observed that an entity presents liabilities that are part of a reverse factoring arrangement as part of 'trade and other payables' only when those liabilities have a similar nature and function to trade payables – for example, when those liabilities are part of the working capital used in the entity's normal operating cycle. Trade payables are generally understood to arise in the ordinary course of business with suppliers.

In this example, because the original liability to a supplier was extinguished, the new liability to the bank would typically be presented as bank financing or under another suitable heading rather than 'trade and other payables'.

If the liability is not presented as a bank financing or other type of short-term loan, the description of the chosen line item needs to be carefully considered, to ensure that the entity's financial position is presented fairly and in a way that faithfully represents the effect of the transaction.

Example 2: Receivables purchase agreement

Subsequent to the notification of selected payables by the buyer, a bank offers the supplier a receivables purchase agreement. Under this contract, the rights under the trade receivable are acquired from the supplier by the bank, but there is no legal release for the buyer from the payable. It is likely that the buyer will be involved to some extent in such an arrangement. For example, the buyer agrees on changes in his rights under the original terms of the sale of goods. As such, the buyer might no longer be eligible to offset the payable against credit notes received from the supplier, or the buyer might be restricted from making earlier direct payments to the supplier.

The economic rationale for the buyer is to assist small strategic suppliers with their cash flows; the buyer does not have any other rationale for entering into such an arrangement.

In such a case, the buyer would need to consider whether the change to the terms of the trade payable is substantial. If there is a substantial change, it is accounted for as an extinguishment – that is, the previous liability should be derecognised and replaced with a new liability to the bank. The effect of any additional restrictions imposed by the reverse factoring agreement on the buyer's rights will need careful consideration. It might be the case that, because the buyer selects each payable at its sole discretion, the buyer will only select those payables where, from their perspective, the effect of any such restrictions on the rights and obligations is not significant. In contrast, it might be the case that all three (that is, the buyer, bank and supplier) have agreed initially on a minimum amount of payables/receivables being refinanced by the bank. In such cases, the buyer subsequently has no further discretion to avoid the change in his rights, even if the change might be significant to an individual payable.

The IC observed that an entity would need to determine the amount, nature, function and timing of the liabilities subject to supply chain financing. An entity would present liabilities separately from each other where those factors indicate that separate presentation is relevant to an understanding of the entity's financial position. The IC also observed that differing terms of the liabilities, as compared to the entity's trade payables that are not part of the arrangement, is one of the factors to consider in determining the appropriate presentation in the financial statements. Therefore, depending on whether the change in terms linked to restrictions on the rights and obligations is considered substantial, the buyer will need to separately classify the trade payables that have been purchased by the bank. The description of the chosen line item needs to be carefully considered, to ensure that the entity's financial position is presented fairly and in a way that faithfully represents the effect of the transaction.

It might be appropriate for the buyer to conclude that the amount, nature, function and timing of the liabilities are not materially different from its other trade payables, and therefore to continue to present the liabilities in 'trade and other payables'.

Final thoughts

Supplier financing arrangement does have an impact on the financial reporting of the buyers. In particular, the buyers should use their judgement to understand the substance of supplier finance arrangement in order to determine the presentation of the payables in the statement of financial position and statement of cash flows. There is also a taxation matter that needs to be considered, considering the presentation of the supplier financing arrangement will impact the buyer's debt to equity ratio. The changes in debt to equity ratio might impact the amounts of CIT imposition.

Glossary

CIT	Corporate Income Tax
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
IASB	International Accounting Standards Board
IAS	International Accounting Standards
IC	Interpretations Committee
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
PSAK	*Pernyataan Standar Akuntansi Keuangan*
VAT	Value Added Tax

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