KPMG

IFRS Today

Our series on the most topical issues in IFRS® Standards and financial reporting

23 June 2022

"The Committee's conclusion could have a profound impact on what feels like a very basic accounting question – just how much cash does your company have?"

VIDEO TRANSCRIPT

IFRIC agenda decisions – Electronic payments

Brian O'Donovan
KPMG seconded partner and IFRS Interpretations Committee member

Hello. I'm Brian O'Donovan. I'm a partner at KPMG and I'm a member of the IFRS Interpretations Committee – the IFRIC.

In its June meeting, the Committee discussed the date on which a company recognises cash if a customer settles a trade receivable through an electronic payment.

The Committee's conclusion could have a profound impact on what feels like a very basic accounting question – just how much cash does your company have?

Cash transfers

In the fact pattern considered by the Committee, a company has a trade receivable due from a customer. Right before year end, the customer initiates payment through an electronic payment system. It just so happens that this payment system takes three days to settle and therefore the cash hits the company's bank account after year end.

The question is – can the company recognise cash in its year-end balance sheet, on the basis that the customer initiated payment before the year end?

Well, the Committee noted that receiving cash to settle a trade receivable is different to buying or selling a financial asset. And therefore, the guidance in the financial instruments standard that allows a company to account for some transactions on either trade or settlement date doesn't apply. This is not an accounting policy choice.

Instead, the Committee said the company derecognises its trade receivable when its contractual right to receive cash expires, and it recognises cash when (and only when) it meets the recognition test in the financial instruments standard. For the particular payment system considered, this would be only when the cash cleared the company's bank account.

So, the answer to the question in this case is that the company would not recognise the cash in its year-end balance sheet.

Broader implications?

At one level, this technical analysis seems… obvious. It's almost a no-brainer.

But ask yourself: have you ever sat down and really thought about how to apply the recognition and derecognition guidance in the financial instruments standards to the payment systems that you and your customers use? Have you ever thought to document that analysis? And what about other similar items – credit card receivables, cash in transit?

I feel that this agenda decision is a real Pandora's box that could lead to restatements of cash.

Next steps

The Committee agreed to issue its conclusion as a final agenda decision – probably in a month or so, subject to the International Accounting Standards Board not objecting.

Take a look. Have a think about how confident you feel in your company's reported cash balance.

home.kpmg/ifrs

Publication name: *IFRIC agenda decisions – Electronic payments*

Publication date: June 2022