Audit Insights

Helping You Succeed

ACCUITY

OCTOBER 28, 2022

New accounting rules for supplier finance programs

Does your company use supplier finance programs to buy goods or services? If so, and if you must adhere to U.S. Generally Accepted Accounting Principles (GAAP), there will be changes starting next year. At that time, you must disclose the full terms of supplier finance programs, including assets pledged to secure the transaction. Here are the details of this new requirement under GAAP.

Gap in GAAP

Supplier finance programs — sometimes called "structured payables" and "reverse factoring" — are popular because they offer a flexible structure for paying for goods and services. In a traditional supplier arrangement, the buyer agrees to pay the supplier directly within, say, 30 to 45 days.

Conversely, with a supplier finance program, the buyer arranges for a third-party finance provider or intermediary to pay approved invoices before the due date at a discount from the stated amount. Meanwhile the buyer receives an extended payment date, say, 90 to 120 days, in exchange for a fee. This enables the buyer to keep more cash on hand. However, many organizations haven't been transparent in disclosing in their financial statements the effects those programs have on working capital, liquidity and cash flows.

That's the reason the Financial Accounting Standards Board recently issued Accounting Standard Update (ASU) No. 2022-04, *Liabilities — Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations*. It will require buyers to disclose the key terms of supplier finance programs and where any obligations owed to finance companies have been presented in the financial statements.

More details

Supplier finance programs are a relatively new form of arrangement that continues to evolve and grow in popularity. Even after this ASU becomes effective, GAAP doesn't provide any specific guidance on where to present the amounts owed by the buyers to finance companies. It's up to the buyer to decide whether these obligations should be presented as accounts payable or short-term debt.

However, the updated guidance does require that in each annual reporting period, a buyer must disclose:

- The key terms of the program, including a description of the payment terms and assets pledged as security or other forms of guarantees provided for the committed payment to the finance provider or intermediary, and
- For the obligations that the buyer has confirmed as valid to the finance provider or intermediary 1) the amount outstanding that remains unpaid by the buyer as of the end of the annual period, 2) a description of where those obligations are presented in the balance sheet, and 3) a roll-forward of those obligations during the annual period, including the amounts of obligations confirmed and obligations subsequently paid.

More details (continued)

In each interim reporting period, the buyer must disclose the amount of obligations outstanding that the buyer has confirmed as valid to the finance provider or intermediary as of the end of the period.

Ready, set, go

The new rules take effect for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, except for the amendment on roll-forward information. That provision is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted. Contact us for more information or help implementing the changes.