Supply Chain Finance and its Accounting Treatment

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1 author:

Bauke Feenstra
University of Aruba

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Reclassification of Trade Payables and its implications for the professional field

Bauke Feenstra, University of Aruba
Anne Rikst Engbers, Windesheim University of Applied Science
Michiel Steeman, Windesheim University of Applied Sciences

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1 Introduction

Supply Chain Finance (SCF) is becoming more and more main stream within corporate supply chain financing solutions. Implementing an SCF program normally changes the terms and conditions of the trade payables, which could impact balance sheet classification. From an accountant's point of view the implementation of an SCF program focuses on the issue of whether trade payables should continue to be classified as an accounts payable or as another liability, such as debt finance. The international accounting framework does not provide any clear guidelines in this matter. Better understanding of the factors that these days play a role in reclassification can improve the transparency on how SCF programs should be treated both in practice and in financial reporting.

This paper presents the outcomes of a study on Supply Chain Finance and its accounting treatment. The aim of the study is to indicate the factors that are of importance with regard to the reclassification of trade payables. Also, in this study we want to explore how the current lack in accounting regulations can be tackled, given the fact that uncertainty about accounting treatment of trade payables can play a role in the decision making process of Supply Chain Finance Programs. In short, with this study we will provide an overview of relevant factors in the reclassification of trade payables and briefly discuss the implications of reclassification issues for the professional field.

1.1 Impediments in the market

In recent years numerous large buyers have entered Supply Chain Finance (SCF) programs with various suppliers. These structured programs are facilitated by financial intermediators, using electronic platforms to smoothen the financial processes. This ecosystem helps the respective stakeholders in several ways. Suppliers receive payments earlier at discounted rates, thus improving their working capital (so called DSO - Days Sales Outstanding); buyers can improve their working capital cycle by extending payment terms (DPO; Days Payable Outstanding) and lastly, financial service providers (e.g. banks and fintech companies) get access to valuable financial data and receive fees for their services. In addition to this, the financial processes within the supply chain improve by releasing significant amounts of liquidity that has been trapped in its DSO or DPO. In this way, the likelihood of supply chain disruptions by supplier insolvency can be reduced. Over the last few years SCF has proven to be a viable financing solution with a growing market presence and strong relevance for both corporates, SMEs and financial institutions.

Despite this positive market trend, there are some serious impediments that prevent the implementation of SCF on a larger scale. One issue is the general lack of knowledge and clarity about SCF and the implementation of SCF within the industry [1]. Especially when it comes to accounting classification of SCF programs, specific regulations are currently lacking, which leads to haziness in accounting treatment and economic risks for both suppliers and buyers.