PROPOSED STATUTORY BOARD FINANCIAL REPORTING STANDARD GUIDANCE NOTE 7

Accounting for Sponsorships Received

SB-FRS Guidance Note 7 *Accounting for Sponsorships Received* applies to Statutory Boards from annual periods beginning on or after 1 January 2017. Earlier application is permitted.

Comments to be received by ***31 July 2015 (date)***

This exposure draft *Accounting and Disclosure for Non-Exchange Revenue* is issued by the Accountant-General's Department Financial & Management Reporting Directorate for comments only and does not necessarily represent the views of the Directorate. The proposals may be modified in the light of the comments received before being issued as a Statutory Board Financial Reporting Standard (SB-FRS).

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, clearly explaining the problem and providing a suggestion for alternative wording with supporting reasoning.

Comments should be submitted in writing, so as to be received by **31 July 2015** preferably by email to AGD_ASSB_Feedback@agd.gov.sg or addressed to:

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Statutory Board Financial Reporting Standard Guidance Note 7 Accounting for Sponsorship Received is set out in paragraphs 1-37. All the paragraphs have equal authority. SB-FRS Guidance Notes are issued to standardise the accounting and disclosure requirements of Statutory Boards in specific areas and are to be complied with by Statutory Boards. These Guidance Notes rank behind SB-FRS and INT SB-FRS in terms of importance.

Proposed Statutory Board Financial Reporting Standard (SB-FRS) Guidance Note 7

Accounting for Sponsorships Received

Objective

1. The objective of this Guidance Note is to provide guidance on how the principles of SB-FRS 115 *Revenue from Contracts with Customers* are to be applied to account for sponsorships received by Statutory Boards.

Scope

2. This Guidance Note applies when a Statutory Board receives a sponsorship. A sponsorship arises when a Statutory Board receives cash, other assets or services and is expected to provide consideration (e.g. publicity) to the sponsor. Sponsorships should be accounted for and disclosed in accordance with SB-FRS 115 *Revenue from Contracts with Customers*.

3. Unlike a sponsorship, a donation is generally a non-reciprocal transfer of assets between parties, i.e. consideration is not expected for the transfer of assets. In instances where nominal consideration is provided, the transfer of assets should be recognised as donations received. An acknowledgement of the donor would not be deemed as consideration and should be accounted for as a donation. Guidance for the accounting treatment for donations is separately provided in SB-FRS Guidance Note 2 *Accounting and Disclosure for Donations*.

Accounting for Sponsorships

Step 1 : Identify the contract(s) with a customer

4. The contract is an agreement with the sponsor and the Statutory Board, for the sponsor to transfer cash, other assets or services in return for the Statutory Board providing consideration to the sponsor.

Step 2 : Identify the performance obligations in the contract

5. The performance obligation is a promise by the Statutory Board to transfer goods or services to the sponsor.

Step 3 : Determine the transaction price

6. The transaction price is the amount of consideration in a contract to which a Statutory Board expects to be entitled in exchange for transferring promised goods or services to the sponsor. This is the fair value of the goods or services the Statutory Board receives or expects to receive from the sponsorship. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

7. The transaction price of a sponsorship in the form of services may be measured by referring to either the fair value of the services received or the fair value of the asset or the asset enhancement resulting from the services. A possible proxy on the fair value of the services received will be the consideration that would have to be paid by the Statutory Board if it has to purchase the service.

Step 4 : Allocate the transaction price to the performance obligations in the contract

8. If the sponsorship agreement involves more than one performance obligation, then the transaction price will have to be allocated to each performance obligation on the basis of the relative stand-alone selling prices of each distinct good or service promised by the Statutory Board to the sponsor. If a stand-alone selling price is not observable, the Statutory Board will have to estimate it.

Step 5 : Recognise revenue when (or as) the entity satisfies a performance obligation

9. A Statutory Board satisfies a performance obligation by transferring a promised good or service to the sponsor. The transfer of the promised good or service to the sponsor may occur over time or at a point in time.

10. When a Statutory Board transfers control of the promised good or service to the sponsor over time, the performance obligation arising from sponsorships will be satisfied and the sponsorship revenue will be recognised over time using either the output method or input method (paragraphs B14-B19 of SB-FRS 115). When a Statutory Board transfers control of the promised good or service to the sponsor at a point in time, the performance obligation arising from sponsorship will be satisfied and the sponsorship revenue will be recognised at the point where control of the asset is transferred to the sponsor.

11. A Statutory Board may receive and obtain control of the sponsored good or service, prior to satisfying its performance obligation. In such an instance, the Statutory Board should recognise an asset for the good or service received, or recognise an expense if the good or service is consumed, AND, at the same time recognise a liability for the performance obligation that has yet to be satisfied. The liability shall be recognised at the transaction price of the sponsorship agreement. When the performance obligation is subsequently satisfied, the sponsorship revenue should be recognised and the liability derecognised.

12. A Statutory Board may have satisfied its performance obligation, i.e. transferred the good or service to the sponsor, but has yet to receive the sponsored good or service from the sponsor. In such an instance, the Statutory Board should recognise a receivable for the good or service from the sponsor, AND, at the same time recognise the sponsorship revenue.

13. A Statutory Board is usually required to incur expenses to fulfil its performance obligations arising from a sponsorship agreement. For example, it may have to produce collaterals to acknowledge its sponsors. These expenses should be recognised in the income statement when (or as) the Statutory Board fulfils its performance obligations.

14. In some cases, Statutory Boards may have received the consideration from the sponsor, but have yet to consume it. For example, a Statutory Board may have received consumables from the sponsor, but have yet to use these consumables. When the consumables are subsequently used, an expense should be recognised to record their consumption. This expense to record the consumption of the goods is different from the expense mentioned in paragraph 13.

Illustrative Examples

15. Six illustrative examples are provided in the following paragraphs on the accounting for sponsorships received.

Illustrative Example 1 : Cash Sponsorship for Event Organised by Statutory Board

Scenario

16. Statutory Board A organises an event and receives sponsorship of $5,000 for the event from Company B. It was agreed between Statutory Board A and Company B that in return for the sponsorship, Statutory Board A will print posters publicising Company B is the sponsor for the event and display them prominently at the event venue during the event. Statutory Board A incurs $200 to print and display the posters.

Assessment

17. Table 1 shows how the revenue recognition model set out in SB-FRS 115 *Revenue from Contracts with Customers* can be applied in this scenario.

Table 1: Application of Revenue Recognition Model

	Step	**Application**
A.	**Identify the contract(s) with the customer**.	The sponsorship received by Statutory Board A is akin to a commercial transaction in which Statutory Board A provides publicity for Company B in return for the sponsorship. The rights and payment terms of both Statutory Board A and Company B can be identified. It is probable that the consideration can be collected by Statutory Board A.
B.	**Identify the performance obligations in the contract**.	The performance obligation of Statutory Board A is to print the posters publicising Company B is the sponsor of the event, and display these posters prominently at the event venue.
C.	**Determine the transaction price**.	The transaction price is the $5,000 received by Statutory Board A from Company B.
D.	**Allocate the transaction price to the performance obligations in the contract**.	In this scenario, there is only a single performance obligation.
E.	**Recognise revenue when (or as) the entity satisfies a performance obligation**.	Statutory Board A should recognise the revenue over the period of the event since the performance obligation is to display the posters during the event.

18. Under this scenario, Statutory Board A should recognise the $5,000 cash sponsorship received as revenue, AND, $200 of cost to print and display the posters as expense incurred to fulfil its performance obligation when (or as) it fulfils its performance obligation.

Illustrative Example 2 : Sponsorship-in-kind for Event Organised by Statutory Board

Scenario

19. The facts are the same as Illustrative Example 1, except that Company B has allowed Statutory Board A the use of its function hall as the event venue for free, instead of providing cash sponsorship. Statutory Board A has determined that renting a similar venue for the event would cost $10,000.

Assessment

20. The transaction price of the sponsorship agreement is $10,000, since it would have cost Statutory Board A $10,000 to rent a similar venue for the event.

21. As the sponsored good or service is the use of an event venue, Statutory Board A is likely to receive and obtain control of the sponsored good on the day or for the period of the event itself. Statutory Board A will recognise this sponsorship-in-kind as an expense of $10,000 when it consumes the benefits derived from using the venue.

22. When (or as) the performance obligation is being fulfilled, i.e. display the posters prominently at the event venue during the event, a sponsorship revenue of $10,000, AND, expense of $200 as cost to print and display the posters shall be recognised.

Illustrative Example 3 : Subsidised Sponsorship-in-kind for Event Organised by Statutory Board

Scenario

23. The facts are the same as Illustrative Example 1, except that Company B has allowed Statutory Board A to use its function hall as the event venue at a subsidised rate of $4,000, instead of providing cash sponsorship. The usual price for renting the venue would cost $10,000.

Assessment

24. The transaction price of the sponsorship agreement is $10,000, since it would have cost Statutory Board A $10,000 to rent a similar venue for the event.

25. As the sponsored good or service is the use of an event venue, Statutory Board A is likely to receive and obtain control of the sponsored good on the day or for the period of the event itself. Statutory Board A will recognise the sponsorship-in-kind as an expense of $10,000 when it consumes the benefits derived from using the venue.

26. When (or as) the performance obligation is being fulfilled, i.e. display the posters prominently at the event venue during the event, a sponsorship revenue of $6,000, cash outlay/payable of $4,000, and expense of $200 as cost to print and display the posters shall be recognised.

Illustrative Example 4 : Sponsorship Received by Statutory Board without Performance Obligations

Scenario

27. Statutory Board C builds a facility for use by the community and receives from Company D free services to renovate the facility. However, Company D does not require Statutory Board C to carry out any performance obligations in return for the sponsorship.

Assessment

28. As there is no consideration to be provided by Statutory Board C in return for the sponsorship, this transaction should be treated as a donation. SB-FRS Guidance Note 2 provides guidance for the accounting of donations.

Illustrative Example 5 : Cash Sponsorship Received where Performance Obligation Satisfied Over Time

Scenario

29. Statutory Board E receives $50 million cash sponsorship from Sponsor F. In return for the sponsorship received, Statutory Board E is required to name its building after Sponsor F for 50 years.

Assessment

30. The transaction price of the sponsorship agreement is $50 million. The performance obligation, i.e. naming the building after the sponsor, will be fulfilled over 50 years. When (or as) the performance obligation is being fulfilled, i.e. over 50 years, a sponsorship revenue of $1 million per year will be recognised.

31. Assuming that it costs Statutory Board E $200,000 to prepare the various types of signages to fulfil its performance obligation, Statutory Board E will capitalise these costs incurred to fulfil its performance obligation as an asset to be recognised as an expense of $4,000 per year.

Illustrative Example 6 : Sponsorship-in-kind Received where Performance Obligation Satisfied Over Time

Scenario

32. Designer G offers to sponsor his professional service worth $500,000 to design an office building for Statutory Board H. In return, Designer G requested for a plaque with his name engraved, publicising that he is the designer, to be placed at a prominent place in the building for 5 years upon building completion. The useful life of the office building is estimated to be 20 years. The plaque costs $7,500.

Assessment

33. The transaction price of the sponsorship agreement is $500,000. The performance obligation of this sponsorship agreement by Statutory Board H is to display the plaque engraved with Designer G's name at a prominent place in the building. This performance obligation will be fulfilled over 5 years.

34. As Statutory Board H receives and obtains control of Designer G's professional services of $500,000, prior to it satisfying its performance obligation, the costs of the professional services should be capitalised as part of the cost of the office building, which will be depreciated in accordance SB-FRS 16 *Property, Plant and* Equipment, AND, a liability for the performance obligation shall be recognised.

35. When (or as) the performance obligation is being fulfilled, i.e. over 5 years, the sponsorship revenue of $100,000 per year will be recognised and the liability derecognised accordingly. At the same time, the cost of the plaque, capitalised as part of the cost incurred to fulfil its performance obligation, will be recognised as an expense of $1,500 per year.

Effective Date

36. This Guidance Note is operative for financial statements covering periods beginning on or after 1 January 2017. Earlier application is permitted.

37. A Statutory Board shall apply this Guidance note only when it applies SB-FRS 115.