# 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 2018. Earlier application is permitted.

# Contents

Statutory Board Financial Reporting Standard Guidance Note 7 Accounting for Sponsorship Received is set out in paragraphs 1- 46 and Annex. 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.

# 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 assets (e.g. cash) or services (e.g. professional advice) and is expected to provide consideration[1] (e.g. publicity) of approximately equal value to the sponsor. Sponsorships should be accounted for and disclosed in accordance with SB-FRS 115 *Revenue from Contracts with Customers*.

3. This Guidance Note does not apply to:

   (a) Transactions where consideration provided is not of approximately equal value to the assets or services received by the Statutory Board, i.e. non-reciprocal transfer of assets; or

   An example of this is when the value of the asset received by the Statutory Board is much higher than the value of consideration provided to the donor, as required by agreement. In addition, the donor did not intend to benefit from giving the asset to the Statutory Board.

   (b) Transactions where Statutory Board does not provide consideration in return.

   An example of this is when assets or services are received by the Statutory Board, and there is no written or verbal agreement to provide any consideration in return. In such an instance, any acknowledgement of the donor's contribution by mention of its name in a programme / booklet / banner / donors' board, is merely a token of appreciation, and would not be deemed as consideration.

   In both cases, the transactions should be recognised as donations received. The Annex contains a flow chart to assess whether assets or services received constitutes a sponsorship or donation.

4. Guidance for the accounting treatment for donations is separately provided in SB-FRS 1001 *Accounting and Disclosure for Non-Exchange Revenue*[2]. If the amount received by Statutory Board is for specific purposes, it should be disclosed as restricted fund in accordance with SB-FRS Guidance Note 1 *Accounting and Disclosure for Funds, Grants, Accumulated Surplus and Reserves*.

### Assessment of Value of Consideration

5. In determining if a transaction is a sponsorship or donation, the key determining factor is whether the assets or services received by the Statutory Board is of approximately equal value to the

[1] Consideration means goods, services, promised actions and other forms of value promised to the giver.
[2] Prior to the effective date of SB-FRS 1001, Statutory Boards should comply with SB-FRS Guidance Note 2 *Accounting and Disclosure for Donations*.

consideration provided to the party. Set out below is a non-exhaustive list of factors to assess the value of consideration:

(a) The fair value of assets or services received by the Statutory Board;
(b) The intention of the party for giving the assets or services to the Statutory Board; and
(c) The nature of the party from whom Statutory Board receives assets or services, e.g. charitable organisation or foundation, philanthropic organisation, commercial entity, etc.

## Recognition and Measurement of Sponsorship

### Step 1 : Identify the contract(s) with a sponsor

6. The contract is an agreement between the sponsor and the Statutory Board, for the sponsor to transfer assets or services in return for the Statutory Board providing consideration to the sponsor.

7. The Statutory Board shall account for a contract entered between itself and the sponsor as sponsorship only when **all** of the following criteria are met:

   a. The parties to the contract have approved the contract and are committed to performing their respective obligations;
   b. The Statutory Board can identify each party's rights regarding the assets or services to be transferred;
   c. The Statutory Board can identify how the consideration is to be provided;
   d. The Statutory Board can identify how the contract is expected to change its risk, timing or amount of the future cash flows; and
   e. It is probable that the Statutory Board will receive the assets or services to which it will be entitled in exchange for providing consideration to the sponsor.

8. The existence of a signed agreement between the sponsor and Statutory Board does not mean that all criteria of a contract have been met. Each criterion has to be assessed individually.

### Step 2 : Identify the performance obligations in the contract

9. The performance obligation is a promise by the Statutory Board to provide consideration (including but not limited to publicity, advertisement, goods or services) to the sponsor.

### Step 3 : Determine the transaction price

10. The transaction price is the amount of consideration in a contract to which a Statutory Board expects to be entitled to in exchange for providing promised consideration to the sponsor. This is the fair value of the assets 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.

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

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

12. 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 consideration 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

13. A Statutory Board satisfies a performance obligation by providing a promised consideration to the sponsor. The provision of the promised consideration to the sponsor may occur over time or at a point in time.

14. When a Statutory Board provides consideration 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 provides consideration 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.

15. A Statutory Board may receive and obtain control of the sponsored asset or service, prior to satisfying its performance obligation. In such an instance, the Statutory Board should recognise an asset for the asset (e.g. goods / cash) or service received, or recognise an expense if the asset 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.

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

17. 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.

18. In some cases, Statutory Boards may have received the sponsored assets or services 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. These consumables are recognised as an asset. When the consumables are subsequently used, the asset is derecognised and an expense should be recognised to record their consumption. This expense to record the consumption of the consumables is different from the expense mentioned in paragraph 17.

19. When the performance obligation is terminated prior to full satisfaction, AND, the sponsor considers the contract/agreement as completely fulfilled, the remaining performance obligation shall be recognised as revenue by the Statutory Board.

# Illustrative Examples

20. 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***

21. Statutory Board A organises an event and receives sponsorship of $50,000 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 as the sponsor for the event and display them prominently at the event venue during the event. Statutory Board A incurs $6,000 to print and display the posters.

***Assessment***

22. 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 sponsor**. | 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 of both Statutory Board A and Company B and how the consideration will be provided by Statutory Board A can be identified. It is probable that Statutory Board A can receive the sponsored cash. |
| 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 $50,000 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. |

23. Under this scenario, Statutory Board A should recognise the $50,000 cash sponsorship received as revenue, AND, $6,000 of cost to print and display the posters as expense incurred to fulfil its performance obligation when (or as) it fulfils its performance obligation.

**<u>Illustrative Example 2 : Sponsorship-in-kind for Event Organised by Statutory Board</u>**

***Scenario***

24. 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 $30,000.

***Assessment***

25. The transaction price of the sponsorship agreement is $30,000, since it would have cost Statutory Board A $30,000 to rent a similar venue for the event.

26. As the sponsored asset or service is the use of an event venue, Statutory Board A is likely to consume the sponsored asset or service on the day or for the period of the event itself. Statutory Board A will recognise this sponsorship-in-kind as an expense of $30,000 when it consumes the benefits derived from using the venue.

27. 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 $30,000, AND, expense of $6,000 as cost to print and display the posters shall be recognised.

**<u>Illustrative Example 3 : Subsidised Sponsorship-in-kind for Event Organised by Statutory Board</u>**

***Scenario***

28. 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 $10,000, instead of providing cash sponsorship. The usual price for renting the venue would cost $30,000.

***Assessment***

29. While it usually costs $30,000 to rent the venue, Statutory Board A only needs to pay a subsidised rate of $10,000. Therefore, the transaction price of the sponsorship agreement, represented by the fair value of the venue less the subsidised price to be paid by the Statutory Board would be $20,000 ($30,000 less $10,000).

30. As the sponsored asset or service is the use of an event venue, Statutory Board A is likely to consume the sponsored asset or service on the day or for the period of the event itself. Statutory Board A will recognise the sponsorship-in-kind as an expense of $20,000 when it consumes the benefits derived from using the venue. At the same time, an expense of $10,000 for the cash outlay/payable to the sponsor shall be recognised.

31. 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 $20,000, AND, expense of $6,000 as cost to print and display the posters shall be recognised.

**<u>Illustrative Example 4 : Sponsorship Received by Statutory Board without Performance Obligations</u>**

***Scenario***

32. 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***

33. As there is no consideration to be provided by Statutory Board C in return for the services received, this transaction should be treated as a donation. SB-FRS 1001 provides guidance for the accounting of donations.

**<u>Illustrative Example 5 : Cash Sponsorship Received where Performance Obligation Satisfied Over Time</u>**

***Scenario***

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

***Assessment***

35. Whether this sponsorship agreement should be accounted as sponsorship or donation is dependent on whether the agreement meets the definition of a sponsorship in paragraph 2 or non-exchange transaction in paragraph 3 of this Guidance Note. **<u>Table 2</u>** shows how the assessment is made.

**Table 2: Assessment of whether agreement is sponsorship or donation**

| Scenario | Outcome of Assessment | Rationale |
|---|---|---|
| Sponsor F enters into the sponsorship agreement with a view that it/he/she is purchasing an advertising space to generate publicity, awareness or personal fame.<br><br>Examples are financial contributions that require the naming of a building after a brand of sporting goods or after a bank. | Sponsorship | Intangible benefit (e.g. increase in publicity, awareness or fame) is accrued to Sponsor F through the naming of the building. In this case, the sponsorship agreement is akin to a commercial transaction. The naming of the building can be considered as an exchange that is approximately equal value to the amount that Sponsor F contributed. |
| Sponsor F did not make the contribution to benefit from the increased publicity, awareness or personal fame, even though the contract requires the building to be named in a certain way.<br><br>An example is a financial contribution that requires a building to be named after a late philanthropist, business or community leader. | Donation | The sponsorship agreement does not have commercial substance, because the naming of the building is simply a gesture to acknowledge the financial contribution. In addition, the value of the benefit to Sponsor F is likely to be much lower than the amount contributed, i.e. a non-reciprocal transfer of assets between the parties. |

<u>Cash Sponsorship</u>

36. 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.

37. Assuming that it costs Statutory Board E $600,000 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 $12,000 per year.

38. In the situation where it has been decided upfront for signages to be replaced at certain predetermined period, the Statutory Board can depreciate the costs incurred according to the useful life of the signages instead. Eventually, the total useful life used to depreciate the costs incurred to fulfil the sponsorship obligation at various points would still add up to 50 years.

39. If the amount received by Statutory Board E is for specific purposes, it should be disclosed as restricted fund in accordance with SB-FRS Guidance Note 1 *Accounting and Disclosure for Funds, Grants, Accumulated Surplus and Reserves*. This is for greater accountability and governance.

<u>Cash Donation</u>

40. SB-FRS 1001 provides guidance for the accounting of donations. If the amount received by Statutory Board E is for specific purposes, it should be disclosed as restricted fund in accordance with SB-FRS Guidance Note 1 *Accounting and Disclosure for Funds, Grants, Accumulated Surplus and Reserves*. This is for greater accountability and governance.

**<u>Illustrative Example 6 : Sponsorship-in-kind Received where Performance Obligation Satisfied Over Time</u>**

***Scenario***

41. 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 $80,000.

***Assessment***

42. 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. The transaction is akin to a commercial transaction as the building is named after Designer G for 5 years in exchange for the provision of his designing service worth $500,000.

43. As Statutory Board H receives 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.

44. 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 $16,000 per year.

# Effective Date

45. This Guidance Note is operative for financial statements covering periods beginning on or after 1 January 2018. Earlier application is permitted.

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

**Annex**

## Differences between Sponsorship and Donation