INSTITUTE OF CHARTERED ACCOUNTANTS OF BARBADOS (ICAB)
ACCOUNTING & AUDITING STANDARDS COMMITTEE
GUIDANCE DOCUMENT 01/2019
On the Memorandum dated January 31, 2019 from the Director of Finance and Economic Affairs on the Subject: "Instructions to State Owned Enterprises to Write off Intragovernmental Debt

(Issued July 9, 2019)

Background

The Government of Barbados (GOB) embarked on the Barbados Economic Recovery and Transformation (BERT) Program. The program aims to restore macroeconomic stability and put the economy on a path of strong, sustainable and inclusive growth, while safeguarding the resilience of the financial sector. As one of the initiatives of the program, the Ministry of Finance, Economic Affairs and Investment (MOFEI) instructed State Owned Enterprises (SOEs) and other public sector bodies to ensure that all claims on other SOEs and other public sector bodies (herein after referred to collectively as the "entities") prior to September 1, 2018 were written off. This included tax refunds and budgetary transfers that had not been made. The MOFEI also instructed that any amounts owed to or due from all other public sector bodies (including the Barbados Revenue Authority) incurred prior to September 1, 2018 should also have been written off as outlined in the official Memo dated 31 January 2019, REF 5741/00 Vol.1. bearing captioned subject, "Instructions to State Owned Enterprises to Write off Intragovernmental Debt". The write offs were to have taken place with effect from December 31, 2018.

Guidance

Transactions between the entities impacted are deemed to be related party transactions as defined in IAS 24 - Related party disclosures. The write off transactions with the GOB and its entities are considered to be captured in the category described in IAS 1 - Presentation of financial statements as "transactions with owners in their capacity as owners" which are reflected in equity and not profit and loss.

Rationalisation

In assessing the purpose and substance of the write-offs, the request from the MOFEI outlined the following reasons for the directive: -

- rationalise intragovernmental relationships;
- ensure that the public sector's accounting for assets and liabilities is true and fair;
- place Barbados' public debt firmly on a sustainable footing.

As a result, where liabilities are being extinguished without being settled as originally agreed, such benefits do not meet the definition of revenue in accordance with IAS 18.7 and therefore are viewed as contributions from owners. Such forgiveness will therefore be a contribution from the ultimate parent and therefore ought to be taken into equity.

As outlined in *Chapter 3*: "Qualitative characteristics of useful financial information" of The Conceptual Framework, the fundamental qualitative characteristics are relevance and faithful representation. In

assessing these concepts, and to avoid an accounting mismatch in the treatment of asset and liability write-offs, the write-off of such related assets should also be reflected in equity.

Treatment of write-offs

While the write-offs may be of balances between the various entities themselves, the issuance of the directive by the shareholder/owner (through the MOFEI) is viewed as the overriding factor for these write-offs to be treated through equity and not profit or loss, irrespective of the type of balance that each entity held on its books or how these were previously accounted for in the books of those entities.

Component of Equity

The Entities impacted by this directive may have some combination of share capital, contributed surplus, accumulated retained earnings or accumulated deficit as the components of equity. While there can be arguments for the transaction to be effected through either share capital or contributed surplus, given that some of these accounts may not be substantial enough to absorb some of the write-offs, it is recommended for consistency purposes that such adjustments be posted against accumulated retained earnings or accumulated deficit. Entities should however consult with the relevant parties impacted by this decision to determine what might be most appropriate based on their specific circumstances.

Disclosure

IAS 24 – Related party disclosures, provides the disclosure guidance required by all reporting entities and certain exemptions are allowed by paragraph 25 of the Standard for government entities. Included below is an extract from paragraph 26 of IAS 24 which indicates the minimum disclosures for entities impacted by the write-off transactions:

" *(a) the name of the government and the nature of its relationship with the reporting entity (i.e. control, joint control or significant influence);*

(b) the following information in sufficient detail to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements:

(i) the nature and amount of each individually significant transaction; and

(ii) for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of their extent. Types of transactions include those listed in paragraph 21."

This guidance document contains general information only and is not intended to be comprehensive nor to provide specific accounting, business, financial, investment, legal, tax or other professional advice. This bulletin is not a substitute for such professional advice, and it should not be acted on or relied upon or used as a basis for any decision or action that may affect you or your business. Before making any decision or taking any action that may affect you or your business, you should consult a qualified professional advisor.

Whilst every effort has been made to ensure the accuracy of the information contained in this publication, this cannot be guaranteed, and neither the Institute of Chartered Accountants of Barbados nor any member shall have any liability to any person or entity that relies on the information contained herein. Any such reliance is solely at the user's risk.