



Special Series on COVID-19

This Special Series note is produced by IMF experts, in conjunction with Eurostat, the Organisation for Economic Co-operation and Development, the United Nations, and the World Bank to help members address the economic effect of COVID-19. The views expressed in this note are those of the authors and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.

June 18, 2020

Recording of Deferred Delivery of, and Payments for, Goods and Services

Intersecretariat Working Group on National Accounts

This guidance note reviews the appropriate treatment in the national accounts for instances in which receipt of a good or service is significantly deferred because of restrictions on the activity of producers. The note also covers the converse, when the restrictions lead to a deferred payment for a good or service.

I. INTRODUCTION

Government restrictions put in place in response to the COVID-19 pandemic have resulted in an increase in situations wherein consumers have prepaid for goods and services but are not able to, or willing to, avail themselves of the good or service; this may be due to restrictions on the producer or due to the choice of the consumer. A non-exhaustive list of common examples are airfares; hotel accommodation; and tickets to cultural, sporting, and entertainment activities. Purchases of these goods or services usually take the form of a monetary payment in advance with the production and delivery of the product occurring at a later date.¹

The impact of COVID-19 has resulted in an increase in the following circumstances arising from this original advanced purchase. The following scenarios can be considered:

- A. The producer provides a voucher or IOU to the consumer for redemption at a later date once productive activity has recommenced.
- B. The producer makes a full refund to the consumer, and the good or service is never provided.
- C. The consumers choose not to, or are unable to, avail themselves to all or part of the good or service. Payment (for either the full cost or an initial deposit) is kept by the producer who subsequently produces the good or service.

¹ The scenarios do not cover the case in which a consumer is provided a (partial) substitute for the good or service purchased.

- D. The consumers choose not to, or are unable to, avail themselves to all or part of the good or service. Payment (for either the full cost or an initial deposit) is kept by the producer who subsequently does not produce the good or service.²

A conceptually similar issue has been reported in various countries, with businesses agreeing on (perhaps encouraged by government ³) the deferral of certain payments for essential goods and services in order to assist households (and firms) during a period of reduced cash flow. Examples of this include deferrals of utility bills for electricity/gas/water. Fundamentally, this also concerns payments for goods and services in a different period than when the good or service is provided.⁴ The possible outcome is the following scenarios:

- E. Full payment is made at a later date for the goods and services received.
F. Full payment is not made at a later date for the good and services received.⁵

In understanding and accounting for scenarios E and F, additional complications may arise, and these are also considered in this guidance note. These include:

- Cases in which all or a partial amount of the outstanding payment is made by government.
- Cases in which all or a partial amount of the outstanding amount is forgiven or written off by the producer, or businesses proactively provide goods and services at no charge.

II. RECOMMENDED APPROACHES FOR EACH SCENARIO

The recommendations for the different scenarios are grouped together based on the result for the consumer.

- Good or service ultimately received by consumer (Scenarios A, E, and F).
- Good or service not received (Scenarios B, C, and D).

Good or Service Ultimately Received with Deferred Delivery of Payment or Receipt of Good or Service.

- Scenario A. The producer provides a voucher or IOU to the consumer for redemption at a later date once productive activity has recommenced.
- Scenario E. Full payment is made at a later date for the goods and services received.

The 2008 System of National Accounts (SNA) recommends that transactions be recorded on an accrual basis throughout (2008 SNA, paragraph 3.163). Accrual accounting records transactions (and therefore the economic activity) at “the time economic value is created, transformed, exchanged, transferred or extinguished” (2008 SNA, paragraph 3.166). It expands on this by outlining that “services are recorded when provided, output at the

² For simplicity, scenarios C and D, ignore any possible insurance cover that consumers may have held against possible cancellation. Transfers associated with these payments should be treated like standard insurance policies.

³ Where governments actively provide support to businesses or households, this should be analyzed against the appropriate statistical guidance (see Annex 1). For further information see Special Series on COVID-19 Government Support to Business and Households and COVID-19, “How to Record Government Policy Interventions in Fiscal Statistics” at <http://www.imf.org/COVID19notes>. Eurostat has also provided guidance at https://ec.europa.eu/eurostat/documents/10186/10693286/GFS_draft_note.pdf.

⁴ For simplicity, examples in this guidance note involve the production of the product and its provision to the consumer occurring in the same period. While this will always be the case for services, for goods it is possible to produce the good in one period, and then store it as inventories, before providing it to the consumer in a subsequent period..

⁵ For simplicity, this scenario does not cover any payment the producer may receive by either on selling the debt or recovered following legal proceedings. Furthermore, the scenario does not cover the possibility of payables to the producer generating payables by the producer and the recording of producer's arrears in making payments.

time products are created and intermediate consumption when materials and supplies are being used” (2008 SNA, paragraph 3.166).

Based on these passages, the dependent factor influencing the timing of the recording of the productive output in the accounts is when the good or service is produced,⁶ rather than when it is paid for. Therefore, in the scenarios outlined in A and E, regardless of when full payment is made in relation to the purchase of a good or service, or in the case of scenario F, not made, the entire output of the good or service is recorded in the period it is produced.

In the examples listed, this would mean the utility services are recorded in the period the service is provided, and not when, or if, they are ultimately paid for. In case of vouchers received for future travel on airlines in lieu of cash refunds, the services will be recorded when the travel takes place. If consumers do not make use of the vouchers provided by the producers, thereby forgoing the service that they are entitled to, the treatment will switch to that outlined for scenario C. In effect, the transaction is treated as a “no-show” by the consumer. It is important, however, to ensure that the production related to this transaction is still recorded in the period that the voucher pertains to. If the voucher stretches over several accounting periods, production should be imputed for the last period before the voucher expires.⁷

Complementary to their treatment in the production account as being recorded at the time the service is provided, an additional transaction should be recorded in the financial accounts to appropriately account for the difference between the delivery and the payment as described in scenarios A, E, and F. In all scenarios, an account receivable should be assigned to the sector of the creditor (the party who has already provided the payment or the good or service), with an offsetting account payable to the sector of the debtor (the party still to pay or provide the good or service). This recognizes that money has been paid or is owed regarding goods and services provided. This appropriately recognizes the financial asset and liability in place, even though no productive activity or payment has yet occurred.

It is possible that when the voucher is ultimately used, the price of the good or service has increased, resulting in an additional payment, on top of the voucher, being required to purchase the original good or service. This should be treated as a simple price increase, and, so, the payment by the consumer should be recorded in the same period as that when the good or service is eventually produced, with the entire transaction (redemption of the voucher and additional payment) recorded as the payment of a single product (although of course corresponding adjustments to accounts receivable/payable should only reflect the redemption of the voucher.⁸

- Scenario F. Full payment is not made at a later date for the good and services received.

The consumer may not pay for the goods and services provided, and the producer may make a business decision to no longer seek payments from a debtor. It is important to distinguish whether this is due to a mutual agreement to no longer seek payment (debt forgiveness) or a unilateral decision by the producer (writing-off the debt). In the case of the former, as outlined in 2008 SNA, the transaction is recorded “as a capital transfer from the creditor to the debtor equal to the value of the outstanding debt at the time of cancellation” (paragraph 10.210). A subsequent transaction follows in the financial accounts, with a reduction in accounts receivable for the producer and matching reduction of account payable for the consumer. In the latter case, when the producer unilaterally decides to no longer seek payment, no transaction is recorded, as it is “not a transaction between

⁶ The later period for when the flight is scheduled for or the voucher is valid till could extend for several periods, for simplicity consecutive periods are used in the example.

⁷ In practice, such a treatment may not be feasible, therefore some form of assumptions could be made regarding the percentage of people redeeming their vouchers and the length of time it takes them to do so.

⁸ There have also been cases reported where the value of the voucher offered has been greater than the original payment. This may be offered by the producer as an additional consolation for needing the voucher in the first place. In such cases, a current transfer from the producer to the consumer should be recorded as the difference between the original price offered and the amount of the voucher.

institutional units and therefore [do] not appear either in the capital account or the financial account of the SNA” (2008 SNA, paragraph 10.211), and such a write off “should be recorded in the other changes in the volume of assets account of the creditor and the debtor” (2008 SNA, paragraph 10.211).

A related issue connected to scenarios E and F concerns a different unit, other than the consumer, paying for the good or service on behalf of the consumer. An obvious example might be the government sector, which may offer to assist various sectors of the economy (e.g., households or certain industries specifically impacted by COVID-19) by paying for essential goods and services (water, electricity, etc.). Alternatively, the producers themselves, as an individual business decision, could choose to waive or reduce the outstanding amount. Treatment of these situations is discussed in Annex 1.

Good or Service Not Ultimately Received

- Scenario B. The producer makes a full refund to the consumer and good or service is never provided.

If a full monetary refund is provided to the consumer with no requirement to spend this money with the producer, then the initial transaction has been extinguished, as a consequence of which there is no economic activity to be recorded in the production account. If the initial payment is held by the producer over two reporting periods before the subsequent refund, then a financial transaction in the form of an account receivable and an account payable should be added to the respective parties’ financial accounts, with the matching asset and liability incorporated into their balance sheet until the initial payment is refunded.

- Scenario C. The consumer chooses not to, or are unable to, avail themselves to all or part of the good or service. Payment (for either the full cost or an initial deposit) is kept by the producer who subsequently produces the good or service. The value of the good or service will be the amount received by the producer (either the full payment or partial payment).
- Scenario D. The consumers choose not to, or are unable to, avail themselves to all or part of the good or service. Payment (for either the full cost or an initial deposit) is kept by the producer who subsequently does not produce the good or service.

There are circumstances where consumers enter into transactions where it is explicitly stated that refunds and changes are not possible. For many producers this condition is factored into the price being offered and the overall business model of the provider. When entering into such a transaction, consumers make an active decision to choose an (often) lower price with less or no flexibility compared to a higher quality (but more expensive) product that may allow for reimbursement or flexibility.⁹

In these cases, as outlined explicitly in the 2008 SNA, this payment will still be “reflected in the consumption expenditure figures of those paying for services they did not in the end take delivery of” (2008 SNA, paragraph 17.383). In these circumstances, the accrual accounting concept still stands in that the economic activity is recorded in the period that the good or service would have been provided regardless of whether the clients avail themselves of the service to which they are entitled. In the examples previously listed, production would include the purchased flight still departing, the hotel remaining open for accommodation, and events occurring with audiences.

The intention of the previous paragraph was to reflect the appropriate treatment for situations wherein a consumer has paid for a good or service and then chooses to no longer receive a good or service even after paying some or all the cost of it. In this situation, it is likely that the producer has had to make some form of

⁹ Often, due to public pressure, or to encourage future demand, firms may make a decision to refund or provide a voucher for a future service even though they are not contractually obliged to do so. In this case, this should be treated like scenario A.

provision to supply the product (kept the hotel room free) or provided the service collectively, like an airline or an event.

In the current environment, many producers are unable to, or are choosing to, not offer the previously purchased product. In practice, it may be very difficult to delineate this scenario from the previous one, as producers will record the nonrefundable sale, regardless of whether they produce the output. That said, the act of paying for a produced service does not automatically result in a service being produced. If the production has clearly not occurred (the purchased flight was cancelled, the hotel was closed to all travelers, or the scheduled event did not occur) and the nonrefundable payment was not returned, then the payment from the consumer to the producer should shift from consumption (and output) in the production account to a capital transfer, with a subsequent reduction in account payable/receivable in the financial account. While the example of a forfeited payment with no subsequent production is not explicitly covered in the SNA, in such circumstances, the original payment would appear to fit the fundamental definition of a transfer since the consumer who made the payment “receives no specific quantifiable benefit in return that can be recorded as part of the same transaction” (2008 SNA paragraph 8.34). Since the payment will result in a change to the position of the balance sheet, recording the payment as a capital transfer is consistent with SNA guidance.¹⁰

The crucial question to enable accurate treatment in the accounts, is whether the production, previously paid for, ultimately takes place or not, and is therefore (not) recorded in the production account, rather than who was responsible for it not occurring. In all cases, if the production does not occur, the account receivable and payable, generated in the financial accounts upon initial purchase and payment will be reduced when the service is not taken up. This is regardless of who is responsible for the production not occurring.¹¹

Where output is recorded, volume measures of output should be dependent on the volume of services delivered. If the volume measure of output is generated by deflating the nominal measure, an adjustment may be required to ensure that any additional nominal expenditure (and output) does not automatically and artificially increase the volume measure beyond the actual level of output, if subsequently no good or service is actually produced. The impact of the nonrefundable deposits will show up as a price effect regardless of the service being provided.

III. SUMMARY OF TREATMENTS USING TWO BASIC EXAMPLES¹²

TABLE 1. Summary of Recording Options

Example	Subsequent Result	Treatment in Accounts
---------	-------------------	-----------------------

¹⁰ This proposed treatment is likely to be difficult to implement during the compilation of the accounts. Often businesses are recording output based on initial sales, or records of which deposits were refunded and which are unlikely to be available. For this reason, some assumptions may need to be included for such a treatment or the approach only applied for significant instances of lost payments associated with production not materializing.

¹¹ The exception here is if the production did not occur due to the producer going out of business and ceasing to trade. While the account receivable/payable will still be generated upon the initial payment, since the institutional unit has ceased to exist and the decision to not receive the good or service is made unilaterally, there is no subsequent transaction in the financial account, rather the value of the account receivable/payable is written off and it should be recorded in the other changes in volume account.

¹² The assumption is made that all payments are made using cash or deposits but for simplicity, cash positions are not mentioned in the table.

Consumer X purchases and pays for an airline ticket in period 1 from Producer Y for a flight in period 2.¹³	Scenario: A Producer Y offers voucher to be utilized during a later period, subsequently utilized in period 3.	Production Account <ul style="list-style-type: none"> • Output of airline services recorded in period 3.
		Financial Account <ul style="list-style-type: none"> • Increase in account receivable for consumer X sector in period 1 (decrease when voucher is redeemed and good or service is provided in period 3). • Increase in account payable for producer Y sector in period 1 (decrease when voucher is redeemed and good or service is provided in period 3).
		Scenario: B Producer Y refunds all payments in period 2.
		Financial Account <ul style="list-style-type: none"> • Increase in account receivable for consumer X sector in period 1 (decrease when refund is paid). • Increase in account payable for producer Y sector in period 1 (decrease when refund is paid).
Scenario: C Consumer X chooses not to or is unable to avail themselves of the good or service. Producer Y retains initial payment (either the full cost or an initial deposit) and subsequently provides airline service in Period 2.		Production Account <ul style="list-style-type: none"> • Output of airline services recorded in Period 2, i.e. when the service was initially scheduled to be provided.
	Financial Account <ul style="list-style-type: none"> • Increase in account receivable for consumer X sector in period 1 (reduction in account receivable in period 2, when the service was scheduled to be provided). • Increase in account payable for producer Y sector in period 1 (reduction in account payable in period 2, when the service was scheduled to be provided). 	
	Scenario: D	Production Account <ul style="list-style-type: none"> • No transaction in the production account.

¹³ The later period for when the flight is scheduled for or the voucher is valid till could extend for several periods, for simplicity consecutive periods are used in the example.

	<p>Consumer X chooses not to or is unable to avail themselves of the good or service. Producer Y retains initial payment (either the full cost or an initial deposit) and subsequently does not provide airline service in Period 2.</p>	<p>Capital Account</p> <ul style="list-style-type: none"> • Capital transfer paid from consumer X sector to producer Y sector in period 2 (recorded after production does not subsequently occur). • Capital transfer received by producer Y from consumer X in Period 2 (recorded after production does not subsequently occur).
		<p>Financial Account</p> <ul style="list-style-type: none"> • Increase in account receivable for consumer X sector in period 1. Reduction in account receivable in period 2, when the service was scheduled but ultimately not provided, consistent with capital transfer in capital account. • Increase in account payable for producer Y sector in period 1. Reduction in account receivable in period 2, when the service was scheduled but ultimately not provided, consistent with capital transfer in capital account.
<p>Producer Y provides electricity to consumer X during period 1; payment is deferred to period 2.</p>	<p>Scenario: E</p> <p>Consumer X makes deferred payment in period 2.</p>	<p>Production Account</p> <ul style="list-style-type: none"> • Output of electricity services recorded in period 1 as provided.
		<p>Financial Account</p> <ul style="list-style-type: none"> • Increase in account receivable for producer Y sector in period 1 (decrease when payment is made in period 2). • Increase in account payable for consumer X sector in period 1 (decrease when payment is made in period 2).
	<p>Scenario: F</p> <p>Consumer X does not make deferred payment in period 2.</p>	<p>Production Account</p> <ul style="list-style-type: none"> • Output of electricity services recorded in period 1 as provided.
		<p>Capital Account</p> <ul style="list-style-type: none"> • Capital transfer paid from producer Y to Consumer X sector in period 2 (treatment for mutual debt forgiveness). • Capital transfer received by Consumer X from producer Y in period 2 (treatment for mutual debt forgiveness).

		<p>Financial Account</p> <ul style="list-style-type: none"> • Increase in account receivable for producer Y sector in period 1. Reduction in account receivable in period 2 (treatment for subsequent payment by government, or mutual debt forgiveness). • Increase in account payable for consumer X sector in period 1. Reduction in account payable in period 2 (dependent on subsequent payment by government, or mutual debt forgiveness). • Increase in account receivable for producer Y sector in period 1. Reduction recorded in other changes in the volume of assets account in period 2 (treatment for writing off bad debt). • Increase in account payable for consumer X sector in period 1. Reduction recorded in other changes in the volume of assets account in period 2 (treatment for writing off bad debt).
--	--	--

ANNEX 1. OTHER RELATED ISSUES STEMMING FROM DEFERRED PAYMENTS

Additional complications that may arise when accounting for scenarios E and F are discussed in this section. These include:

- Cases in which all or a partial amount of the outstanding payment is made by the government.
- Cases in which all or a partial amount of the outstanding amount is forgiven or written off by the producer, or the corporations proactively provide goods and services at no charge.

The amount payable may be taken over by the government sector or the producer, while the underlying good or service is received. Similar to previous scenarios, the economic activity is still recorded when the producer produces the good or service, regardless of when payment is subsequently made or who ends up paying for the good or service. However, in addition to recording the transaction in the production account, additional flows should be reflected in the accounts to appropriately record these various interventions.

Intervention by the Government That Benefit Households

If subsequently, the outstanding amount is paid partially or entirely by the government, in many cases this could be considered as social assistance benefits, or social transfers in kind, especially if this is part of a wider package aimed at reducing social risks to households. The choice between the two classifications may depend on whether a cash payment is made to the household, or the payment is made directly to the producer.

Alternatively, the payment may be considered as unrelated to reducing social risks, or it may concern payments made to sectors in the economy other than households. In these circumstances, treatment of the payment as other current transfers might be considered.

Ultimately, treatment of payments involving the government sector will depend on the specifics of each policy. Furthermore, depending on the policy and the subsequent classification, additional adjustments may be required, so that payments from the government to the producer are rerouted in order to record the relevant sector consuming the product. Various guidance notes have been produced that focus on the considerations that should go into decisions regarding how government expenditure to both business and households are reflected in the accounts.¹⁴

Additional Intervention by Producers

From the outset, it is important to note that if producers decide to generically reduce their prices (including theoretically to zero) in response to market conditions, then this new lower price should simply be treated as the new market price.¹⁵ Alternatively, in response to market conditions, the producer may choose to provide goods and services as a form of promotional activity. Finally, in exceptional circumstances, if the provision of the good or service at a reduced price, or free, is not in direct response to market conditions, then a current transfer may also be included within the accounts.

Producers providing goods and services for promotional purposes

Corporations often provide free goods and services in the form of sponsorship. While this can result in additional signage or public recognition, this is not a prerequisite for this type of expenditure to be classified as such. The

¹⁴ For more information see Special Series on COVID-19 Government Support to Business and Households and COVID-19, "How to Record Government Policy Interventions in Fiscal Statistics" at <http://www.imf.org/COVID19notes>. Eurostat has also provided guidance at https://ec.europa.eu/eurostat/documents/10186/10693286/GFS_draft_note.pdf.

¹⁵ This treatment is consistent with Special Series on COVID-19 "Recording of Deferred and Waived Rental Payments" at <http://www.imf.org/COVID19notes>.

SNA includes this issue in its research agenda, recognizing that there may be merit in considering this as a form of final consumption expenditure of corporations and social transfers in kind to households (2008 SNA, paragraph A4.16). Currently however, no such imputation is made in the accounts.

Alternatively, a producer might choose to promote their product by offering some form of promotional/introductory pricing, including a reduction to zero prices. This pricing should be considered along with the standard pricing in determining an average price to apply to the output for that period. In this scenario, treatment should follow the standard practice for accounting for lower prices in the national accounts.

As pointed out in the 2008 SNA, corporations exist “for the purpose of producing goods or services for the market that may be a source of profit or other financial gain to its owner” (2008 SNA, paragraph 4.39). With this in mind, it is likely that expenditure on providing below market or free goods and services is undertaken in order to increase future sales and profit. That said, there are examples where corporations do offer goods and services for altruistic reasons as the underlying motive.

Producer providing goods and services for free or at reduced prices for altruistic reasons, in order to assist consumers

If the corporation is providing the good or service at reduced prices, and it is considered that they are not doing this to improve their public image or generate future growth, the output should be recorded at its standard market price. Such behavior would have to be limited to arbitrary selected clients, e.g. to avoid insolvency of the client or due to extenuating circumstances of a specific client. The expenditure on the good or service in question should then be recorded as final or intermediate consumption at the normal market price, with a concomitant income transfer (other current transfer).

While conceptually a transfer should be recorded in these circumstances, practically, an accurate recording of these types of transactions will likely be very onerous. Initially, since it is based on intent, it will be difficult to determine if the reduction in prices is for altruistic purposes rather than a promotional activity, or in response to market behavior. Additionally, if determined that it is for altruistic reasons, due to a lack of available information and depending on the significance of the transaction; without making any adjustment to represent the transfer occurring, the lower prices will likely result in only a reduction of output being recorded. For this reason, it may be considered to only apply this treatment in significant instances where corporations are altruistically providing a good or service at below-market prices.