

Tutorial 6 (Week 7) – Operating Activities: Receivables

Amended Sept 22, 2025

As part of its loan covenant with the bank, Hunt3X is now required to perform an audit of its financial statements. Hunt3X hired Earnest&Co Auditing Limited (Earnest&Co) as its auditors.

During the audit of its 2025 financial year, Earnest&Co discovered that Hunt3X did not record any expected credit loss for 2025 (ignore the financial year 2024 as the effect is negligible). Earnest&Co advises Hunt3X to use the allowance method to account for its uncollectible accounts receivable.

An aging of Hunt3X's accounts receivable at 31 December 2025 shows the following:

Schedule of Accounts Receivable by Age at 31 December 2025		
Classification of Receivables	Amount	Estimated % Uncollectible
Current	29,050	2%
1-60 days past due	2,800	15%
61-90 days past due	1,600	25%
Over 90 days past due	350	40%
Total	33,800	

Required for Tutorial 6:

Using your spreadsheet:

(1) Calculate the estimated uncollectible receivables for the financial year 2025. Prepare the journal entry to record the expected credit loss (ECL) for the year (omit journal explanation).

(2) After adjusting for uncollectible accounts, calculate the following for financial year 2025:

(Use figures from Tutorial 4, do not incorporate any of the hypothetical scenarios from Tutorial 5)

- (i) Net Income
- (ii) Receivables (Net)
- (iii) Total Assets

(3) Calculate the receivables turnover ratio and average collection period for the financial year 2025 (round to 3 decimal places). The balance of the Accounts Receivable account at the beginning of 2025 is \$21,700.

- (4) If assuming that in **2026**, Hunt3X had to write off \$2,000 of its accounts receivable as one of its customers, Kwima Productions Ltd., has unexpectedly gone bankrupt and the amount is no longer deemed collectible. Determine the following:
- (i) What is the journal entry to record the write off?
 - (ii) What is the balance of its loss allowance account immediately after the write off?
 - (iii) Do you think the prior year's (2025) estimate of uncollectible accounts receivables was understated?
 - (iv) If at the end of 2026, an aging analysis of Hunt3X receivables shows a target Loss Allowance balance of \$2,100, how much will Hunt3X record as its expected credit loss in 2026?

~ End of Tutorial 6 ~