

Tutorial 6 (Week 7): Understanding FS – Receivables

- (a) How do you verify that the amounts reported on SBS Transit's Statement of Financial Position for its current and non-current "Trade receivables" appropriately reflect estimates for uncollectible accounts? Which note disclosures would you examine?

Refer to Note 6 : SBS Transit's trade and other receivables is reduced by allowances for expected credit losses. From the table in the notes, it is shown that there is an "Allowance for expected credit losses" deduction taken in 2024 in the amount of \$172,000 for trade receivables.

6. TRADE AND OTHER RECEIVABLES

	Group	
	2024 \$'000	2023 \$'000
Trade receivables from:		
Related companies (Note 4)	1,106	672
Outside parties	155,655	144,024
Accrued income	72,804	52,223
	229,565	196,919
Allowance for expected credit losses	(172)	(59)
	229,393	196,860

- (b) Which measurement approach under IFRS 9 does SBS Transit uses to calculate its expected credit loss (ECL) and loss allowance? In your view, is this approach appropriate for a transport operator such as SBS Transit? Why or why not?

Refer to Note 2.5: SBS Transit uses the simplified approach. In calculating its ECL, SBS Transit relies on the Group's historical credit loss experience, while also taking into account debtor-specific factors and relevant current and forward-looking economic factors. This is appropriate for a company like SBS Transit, whose receivables are largely stable and low risk. The simplified method is efficient while still ensuring compliance with IFRS 9.

Impairment of financial assets

The Group applies the simplified approach permitted by SFRS(I) 9 *Financial Instruments* for trade receivables. The expected credit losses ("ECL") on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors as well as current and forecast general economic conditions at the reporting date. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

- (c) What were the balances of SBS Transit's loss allowance account as at 31 December 2024 and 2023? Why do you think the allowance almost tripled in 2024 as compared to 2023?

Refer to Note 6: SBS Transit's "Allowance for expected credit losses" balance at the end of 2024 is \$172,000 and \$59,000 in 2023. The increase can be explained by the higher ECL expense recognized in 2024 (\$108,000) versus 2023 (\$5,000). This could reflect the impact of certain broader economic uncertainties or a higher assessed risk of default from certain customers, prompting SBS Transit to adopt a more conservative approach in estimating potential uncollectible receivables. Although the loss allowance account almost tripled, the absolute dollar value remains very small relative to SBS Transit's total trade receivables.

- (d) How much ECL did SBS Transit recognize in 2024 and 2023, and where would you find these amounts in SBS Transit's Income Statement?

Refer to Note 21: SBS Transit reported ECL of \$108,000 in 2024 and \$5,000 in 2023.

21. OPERATING PROFIT

	Group	
	2024 \$'000	2023 \$'000
Directors' fees	998	995
Cost of inventories recognised in repairs and maintenance costs	140,337	139,042
Net loss on disposal of vehicles, premises and equipment	188	93
Allowance for inventory obsolescence	7,371	8,363
Allowance for expected credit losses	108	5
Provision for accident claims	3,781	2,641
Provision/(Write-back) for service benefits	747	(136)
Provision for reinstatement and maintenance costs	1,423	1,745
Audit fees:		
Auditor of the Company	266	253
Non-audit fees:		
Auditor of the Company	13	8

- (e) In calculating its ECL, how does SBS Transit determine the probabilities of default for its customers? Suppose in 2024, one of its largest institutional customers (e.g. a government agency contractor) is facing financial distress, how would this affect your assessment of the adequacy of SBS Transit's loss allowance?

SBS Transit determines the probability of default for its customers using a combination of historical credit loss experience of the Group, debtor-specific factors (e.g. size, and past payment behavior) and macroeconomic information (e.g. overall economic conditions and industry-specific risks).

If in 2024, one of SBS Transit's largest institutional customers was facing financial distress, this would materially increase the assessed probability of default. As a result, the company would likely need to reassess the adequacy of the loss allowance, and most likely increase its provision for expected credit losses to reflect the higher default risk. SBS Transit might also consider disclosing the heightened risk in its financial statements.

- (f) Assume that in 2024, SBS Transit had to write off \$100,000 of trade receivables that had not been provided for at the end of 2023. How should this write-off be accounted for, and what does it indicate about the accuracy of management's earlier estimates?

If SBS Transit had recorded a write-off, it would have recorded the following:

Dr. Allowance for ECL	100,00
Cr. Accounts Receivable	100,000

Given that the Allowance account only had a beginning balance of \$59,000, the write-off would result in the Allowance account having an abnormal balance. This would mean that assuming SBS Transit's ending Allowance balance was still \$172,000, it would then have to record a much higher ECL in 2024, in the amount of around \$213,000 instead of the current \$108,000.

The fact that the Allowance account was not adequate in 2024 to absorb the write-off shows that SBS Transit's earlier estimates from 2023 were insufficient. Going forward, management may need to refine and adopt more conservative probability of default assumptions to better capture the increased default risk.

~ End of Tutorial 6 Solutions ~