

Tutorial 9 (Week 11) : Understanding FS – PPE

(a) What types of PPE does SBS Transit report on its Statement of Financial Position? How can you verify that the amount reported has considered accumulated depreciation? As at 31 December 2024, what is the total acquisition cost of SBS Transit's owned PPE, and how much accumulated depreciation has been recognized? What depreciation method does SBS Transit uses?

SBS Transit refers to its PPE as “Vehicles, Premises and Equipment”. It reports the following PPE classes: (refer to Note 10)

- Buses
- Leasehold building
- Leasehold improvements
- Computers and automated equipment
- Workshop machinery, tools & equipment
- Motor vehicles
- Furniture, fittings & equipment
- Capital projects in progress

The PPE balance on the Statement of Financial Position of \$271,948,000 is net of accumulated depreciation. From Note 10 (a), it is shown that the owned PPE acquisition cost as of 31 December 2024 is \$1,176,324,000 and its accumulated depreciation is \$917,640,000, resulting in a carrying amount \$258,684,000.

From Note (b), it is shown that the right-of-use asset has an acquisition cost of \$112,039,000 and accumulated depreciation for \$98,775,000, resulting in a carrying amount of \$13,624,000. Both the net owned PPE and net right-of-use assets combined is the total PPE reported on its main statement of financial position.

SBS Transit uses the straight-line depreciation method.

(b) How much new owned PPE did SBS Transit acquire in 2024? How can you confirm whether these acquisitions were fully paid in cash? Which category of PPE recorded the largest addition in 2024, and do you think this aligns with the company's strategic goals and mission?

From Note 10, it is shown that SBS Transit acquired \$21,814,000 new owned PPE in 2024. However, not all the acquisitions were fully paid in cash, as it can be seen from the Statement of Cash Flows that the cash outflow for purchase of PPE is only \$20,351,000.

The category that recorded the largest addition in 2024 was Capital in Progress, with Computers and Automated Equipment taking the second place. This seems to align with the company's Green Plan 2024 and its commitment to achieving net-zero emissions by 2050. It is investing in the construction of its infrastructure and facilities to align with its mission to provide safe, reliable and sustainable services.

(c) Suppose SBS Transit changes its estimate of the useful life of buses from 15 years to 12 years. How would this change affect the financial statements in terms of depreciation expense, net income, and the PPE balance in future years?

If the useful life of the buses are shortened from 15 to 12 years, this means that SBS Transit will report a higher amount of depreciation expense each year as the cost of the asset will now be spread over a shorter lifespan. This will subsequently reduce net income, and the carrying amount of the PPE will decline faster, thus showing a reduced amount of total assets in its statement of financial position.

(d) SBS Transit disposed of PPE in 2024. How are such disposals accounted for in the financial statements? How can you determine whether the disposal involved cash proceeds, and whether a gain or loss was recognized? Are you able to reconcile the amounts disclosed in the financial statements and the accompanying notes?

Disposal of PPE would require the removal of the asset's cost and accumulated depreciation from the statement of financial position. The difference between any proceeds and the carrying amount will be recognized as either a gain or a loss in the income statement.

You can refer to the Statement of Cash Flows to determine if the disposal of assets involve any cash proceeds, and to the Income Statement to determine if a gain or loss was recognized.

SBS Transit reported cash proceeds of \$26,517,000 from disposal of assets on its Statement of Cash Flows. The carrying amount of its disposed assets (from Note 10) is \$26,706,000*, which means that SBS Transit should report a loss of \$189,000. This number ties to the \$188,000 loss on disposal of PPE that SBS transit reported on its on its Income Statement (difference of \$1,000 most likely due to rounding).

*The carrying amount of its disposed assets is comprised of owned PPE and right-of-use assets: disposed owned assets is \$19,472,000 (acquisition cost \$64,114,000 – accumulated depreciation \$44,642,000), disposed right-of-use assets is \$7,234,000 (acquisition cost \$17,600,000 – accumulated depreciation \$10,366,000).

(e) Suppose SBS Transit undertakes a project to redesign and overhaul its rail signaling system.

Under what circumstances should expenses be capitalized as PPE and when should they be expensed?

Expense should be recorded as an asset if it is expected to produce future economic benefit and the cost can be reliably measured. Certain criteria to help SBS transit determine if an expense can be capitalized are:

- Extending the life of the rail signaling system beyond its original estimated useful life
- Major overhaul or replacement of major parts of the signaling system
- Increasing the efficiency of the system

General routine maintenance costs that maintain the normal operating condition of the signaling system should be expensed.

(f) Calculate the fixed assets turnover and total assets turnover of SBS Transit for the financial years of 2024 and 2023. Note: You will need to search for and extract the necessary 2022 financial figures to calculate your ratios for 2023. (Round your answer to 3 decimal places)

	2024	2023
Revenue	1,559,728	1,527,136
PPE - Beginning	353,546	480,867
PPE - Ending	271,948	353,546
Average PPE	312,747	417,207
Fixed Assets Turnover	4.987	3.660
Total Assets - Beginning	1,172,196	1,211,194
Total Assets - Ending	1,160,668	1,172,196
Average Total Assets	1,166,432	1,191,695
Total Assets Turnover	1.337	1.281

~ End of Tutorial 9 ~