

Tutorial 8 (Week 9) : Understanding FS – Current Liabilities

- (a) Calculate and compare SBS Transit's current ratio and quick ratio for the financial years 2024 and 2023 (round your answers to 3 decimal places). How do the two ratios differ, and what do they tell you about SBS Transit's ability to meet its short-term obligations?

<i>In '000s</i>	2024	2023
Current Assets	868,540	796,319
Current Liabilities	370,424	412,303
Current Ratio	2.345	1.931
Cash & Short Term Deposits	384,993	371,965
Current Trade Receivables	229,393	196,860
Quick Assets	614,386	568,825
Quick Ratio	1.659	1.380

SBS Transit's current ratio and quick ratio improved in 2024, indicating a stronger position in short term liquidity. Both liquidity ratios are above 1, which shows that SBS Transit has sufficient current assets and quick assets to meet its short-term obligations.

- (b) What are the different types of current liabilities that SBS Transit report on its Statement of Financial Position for the years 2024 and 2023? Classify them into "known," "estimated," or "contingent" liabilities based on what you learned in lecture 08.

Known Liabilities

- Lease Liabilities
- Trade and other payables
- Deposits received
- Income tax payable (also an estimated liabilities)

Estimated Liabilities

- Fuel price equalization account (Note 2.10: to mitigate effects of increase in fuel price and electricity tariffs)
- Provisions

- (c) What types of current provisions does SBS Transit report? For each of the following hypothetical scenarios, explain the appropriate accounting treatment and the impact on SBS Transit's financial statements:

Current Provisions relate to: (Note 16)

- Provision for accident claims
- Provision for service benefits
- Provision for reinstatement and maintenance costs

- (i) Suppose that SBS Transit provides long-service benefits to employees who complete 20 years of service. Based on estimates, the company expects to pay out \$1 million in benefits in 2025.

SBS Transit should record a provision for long-service benefits:

Dr. Employee benefits expense	\$1 million
Cr. Provision for service benefits	\$1 million

Impact on FS: Increase liabilities & decrease equity (higher expense → lower NI)

- (ii) Suppose that in November 2024, an SBS Transit bus was involved in an accident. Lawyers advise that it is highly probable SBS Transit will be found liable, and estimate damages of \$1.5 million.

SBS Transit should record a provision for accident claims:

Dr. Accident claims expense	\$1.5 million
Cr. Provision for accident claims	\$1.5 million

Impact on FS: Increase liabilities & decrease equity (higher expense → lower NI)

- (iii) Suppose that a group of former bus drivers has filed a lawsuit against SBS Transit claiming unfair dismissal. The case is ongoing, and lawyers believe there is only a remote chance that SBS Transit will lose.

Since the chance of loss is remote, SBS Transit does not need to record a provision. No disclosure is required. No impact on FS.

- (iv) Suppose that the government has proposed a new legislation requiring SBS Transit to install new emission-reduction equipment in all of its bus depots by 2029. The estimated cost is \$10 million per year, but as at 31 December 2024, the law has only been drafted and not yet passed.

Since the law has not been enacted, there is no present obligation yet so SBS Transit does not need to record a provision, but it may consider disclosing it in the notes as a future contingent liability. No impact on FS.

- (d) Assume that SBS Transit issued a short-term note payable of \$5 million at 5% interest on 18 November 2024, payable in 90 days. How much interest expense should be accrued in 2024, and what adjusting journal entry should be recorded at year-end? What journal entry should be recorded upon maturity of the note (calculate and state the due date of the note as well)? Use the Actual/360 convention.

@ 31 December 2024:

Dr. Interest expense (\$5m x 5% / 360 x 43 days)	\$29,861
Cr. Interest payable	\$29,861

@ 16 February 2025:

Dr. Interest expense (\$5m x 5% / 360 x 47 days)	\$32,639
Dr. Interest payable	\$29,861
Dr. Note Payable	\$5,000,000
Cr. Cash	\$5,062,500

~ End of Tutorial 8 ~