



GRAP 104 on *Financial Instruments* (Revised)



Your guide to understanding and applying the revised Standard

This article is part of a series of articles that discuss the key amendments to GRAP 104 (revised). GRAP 104 is the authoritative source. Other supplementary resources are intended to be read alongside GRAP 104 and do not replace or override its guidance. The article has been prepared by the Secretariat of the ASB for information purposes only. It has not been reviewed, approved, or otherwise acted on by the Board.

Receivables in the revised GRAP 104 – what has changed?



Receivables, also referred to as debtors, is a financial instrument that is common to most entities. Receivables arise because credit is extended for the sale of goods, the provision of services or use of assets. They form part of the working capital of an entity and is usually one of the more liquid assets of an entity after its cash and cash equivalents. Some entities, like municipalities, have large debtor balances which makes it crucial to get the measurement and management of debtors correct, both individually and collectively.

Contractual receivables are in the scope of the GRAP 104 on *Financial Instruments* (2019). Receivables that do not arise from contracts, i.e. they arise from legislation or similar means, are not in the scope of GRAP 104. These are statutory receivables and are accounted for using GRAP 108 on *Statutory Receivables*. Receivables could arise from both exchange and non-exchange transactions. The accounting for interest earned on the receivable as either exchange or non-exchange follows the treatment of the underlying receivable.

The changes in GRAP 104 mainly affect the classification and impairment of receivables.

Classification of receivables

A receivable can either be classified as a financial asset at amortised cost or at fair value through surplus or deficit. The classification depends on the following criteria:

1) The management model for receivables

Entities should assess whether their intention is to hold the receivable to collect contractual cash flows from it, or to hold the receivable to obtain gains from its sale.

2) The characteristics of the contractual cash flows of the receivables

Entities should assess whether the cash flows are solely payments of principal and interest on the principal amount outstanding. Here, the terms of the arrangement are consistent with a basic lending arrangement.

A receivable is measured at amortised cost if the management model indicates that the entity holds the receivable to collect its contractual cash flows and the test of 'solely payments of principal and interest' is met. It is likely that receivables are measured at amortised cost because entities generally hold receivables to collect their cash flows and the characteristics of the cash flows are likely consistent with a basic lending arrangement. Entities should, however, consider the criteria above.

Impairment of receivables

Impairment only applies to receivables measured at amortised cost. GRAP 104 adopts the simplified approach for receivables, including lease receivables. This means that entities do not need to test whether they should use lifetime or 12-month expected credit losses. There is therefore no need to assess whether there has been a significant increase in credit risk since initial recognition. The expected cash flows are based on the **lifetime expected credit losses** of the receivable. Lifetime losses reflect the possible occurrences of default over the lifetime of the asset.

The expected credit losses of a receivable is the present value of the difference between the contractual cash flows due in terms of the arrangement, and the cash flows the entity expects to receive. A provision matrix may be used to determine the credit losses for receivables. Provision matrices apply the relevant loss rates to the receivable balances outstanding. For example, an entity applies different loss rates depending on the number of days that receivables are past due per the age analysis. Provision matrices are generally based on historical data and experience, so it is important for entities to adjust their current matrices to reflect information about current and forecasts of future economic conditions.

The expected credit losses calculated is recognised as a loss allowance against the receivable in the Statement of Financial Position. The movement in the expected credit losses year on year is recognised in surplus or deficit.

Resources

For more information on how the requirements of GRAP 104 (revised) apply to receivables, access the [Fact Sheet on Receivables](#) on the ASB website.