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IFRS 9 for Trade Receivables: Expected Credit Losses Without False Precision

A defensible expected-credit-loss model combines clean receivable data, evidence-based segmentation, historical experience and reasonable forward-looking information.

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EDITORIAL GUIDE

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A defensible expected-credit-loss model combines clean receivable data, evidence-based segmentation, historical experience and reasonable forward-looking information.

> An ageing report shows how long an invoice has been outstanding. IFRS 9 asks a harder question: how much cash does the business expect not to collect, considering past experience, current conditions and supportable information about the future?

For UAE taxable persons applying full IFRS, expected credit losses are not reserved only when a customer defaults. IFRS 9 introduced a forward-looking impairment model. For many trade receivables and contract assets, the simplified approach requires lifetime expected credit losses to be recognised and updated at each reporting date.

What IFRS 9 requires from the estimate

PROBABILITY WEIGHTED	The measurement reflects an unbiased, probability-weighted amount across possible outcomes.
TIME VALUE	Expected shortfalls reflect the time value of money when material.
AVAILABLE INFORMATION	The estimate uses reasonable and supportable information available without undue cost or effort.
FORWARD LOOKING	Past events and current conditions are adjusted for forecasts of future economic conditions.

Confirm the accounting framework and scope

Ministerial Decision No. 114 of 2023 requires UAE taxable persons to apply IFRS for corporate-tax purposes, while a taxable person with revenue not exceeding AED 50 million may apply IFRS for SMEs. The impairment requirements are not identical. This article addresses entities applying full IFRS and should not be transferred mechanically to an IFRS-for-SMEs set of accounts.

Identify trade receivables and contract assets within the model, then distinguish receivables with and without a significant financing component. Under IFRS 9, trade receivables or contract assets that do not contain a significant financing component use lifetime expected credit losses. For certain other trade receivables, contract assets and lease receivables, the entity may make the relevant accounting-policy election to use the simplified lifetime approach.

Document the scope and policy. Mixed portfolios may include employee balances, related-party loans, deposits, contract assets and bank balances that require different analysis. Labelling everything “receivables” can cause the wrong impairment model to be applied.

Clean the data before modelling loss

The model cannot compensate for an unreliable subledger. Reconcile receivables to the general ledger, remove settled invoices, allocate unapplied cash, process approved credit notes and investigate negative balances. Separate retention amounts, disputed invoices, contract assets and receivables under legal action.

Ageing should use a consistent reference date. Age from contractual due date where that reflects delinquency, not simply invoice date. If payment terms vary materially, a single invoice-age bucket can misclassify risk.

Create customer segments that share credit-risk characteristics. Possible factors include customer type, sector, geography, security, payment method, contract form and historical behaviour. Segmentation should be supported by evidence and large enough to produce meaningful data. Too many groups create false precision; too few hide important differences.

Build a provision matrix with loss rates

A provision matrix is a practical way to apply lifetime expected credit losses to a broad trade-receivable portfolio. Begin with historical credit losses over a period that captures relevant experience. Follow invoice populations from origination to collection, write-off or recovery, rather than dividing current write-offs by current revenue.

Calculate loss rates by ageing bucket and segment. Consider the effect of recoveries and credit enhancements that are integral to the contractual terms. Ensure the numerator and denominator are consistent and avoid double-counting VAT, security or subsequent receipts.

Historical data should be adjusted for current and forward-looking conditions. Changes in customer solvency, sector conditions, interest rates, property activity or government measures may make historical loss rates unrepresentative. The adjustment needs a logical relationship to credit risk; a management overlay should not be an unexplained percentage selected to reach a preferred allowance.

> *“Expected credit loss is an estimate of cash shortfalls, not a target percentage of revenue.”*

Assess material customers individually

A matrix does not remove the need to examine specific exposures. Large, disputed, insolvent or legally escalated balances may have risk characteristics unlike the portfolio. Assess expected cash flows, timing, security, insurance, guarantees, subsequent receipts and credible restructuring plans.

Do not set the allowance to zero solely because management expects a customer eventually to pay. Delay can create an economic loss, and the possibility of non-payment must be considered. Conversely, an overdue invoice is not automatically a full loss if reliable evidence supports recovery.

Customers under common control or affected by the same project may create concentration risk. Aggregate related exposures when assessing scenarios. A confirmed payment after reporting date can provide evidence about conditions at the reporting date, but later events must be analysed under the applicable subsequent-events requirements.

Define write-off and recovery governance

IFRS 9 requires a financial asset to be written off when there is no reasonable expectation of recovery. Write-off is an accounting conclusion, not necessarily a waiver of legal rights. Policy should define indicators, approval authority, tax review, continued collection and treatment of later recoveries.

Credit control, legal and finance should agree the status of significant balances. Sales optimism should not override evidence, and finance should not write off a customer without understanding commercial or legal action. Preserve correspondence, settlement offers, legal opinions and approval.

Write-off history also improves the model. Analyse which customer and transaction characteristics predicted loss, how long recovery took and whether security performed as expected. Update segments and loss rates when the evidence changes.

Connect the allowance to business decisions

The allowance should inform credit limits, payment terms, pricing and collection resources. A customer segment with rising expected losses may require deposits, milestone billing, guarantees or tighter approval. If finance calculates ECL only at year-end, the operating value is lost.

Report gross receivables, allowance, net receivables, ageing, concentration, overdue movement, disputes, subsequent collections and forecast cash impact. Explain changes between periods: portfolio growth, ageing migration, write-offs, model changes and forward-looking overlays.

For corporate-tax purposes, accounting expense is the starting point, but deductibility must be determined under the Corporate Tax Law and applicable guidance. Do not assume the accounting allowance is automatically the final tax deduction. Maintain a tax reconciliation and supporting records.

A controlled reporting-date process

01	**Scope:** Confirm full IFRS, the relevant assets and the simplified-approach policy.
02	**Reconcile:** Clean the subledger, ageing, cash allocation and credit notes.
03	**Segment:** Group exposures using evidenced shared credit-risk characteristics.
04	**Measure:** Calculate historical losses and support forward-looking adjustments.
05	**Challenge:** Review material customers, concentration, security and subsequent receipts.

06

Approve:
Document overlays, write-offs, tax treatment and management review.

A proportionate model can be simple, but it cannot be mechanical. The strongest expected-credit-loss process uses clean receivable data, transparent assumptions and evidence that credit risk influences commercial decisions. That produces a more credible financial statement and a more useful view of the cash the business is actually likely to collect.

Official sources

1. **IFRS Foundation: IFRS 9 Financial Instruments**
2. **IFRS Foundation: expected-loss impairment model**
3. **IFRS Foundation: reasonable, supportable and forward-looking information in ECL**
4. **Ministry of Finance: Ministerial Decision No. 114 of 2023**

Online edition: **https://iraaglobal.com/insights/uae-ifrs-9-trade-receivables-expected-credit-losses/**

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