

Singapore CA Qualification (Foundation) Examination**7 December 2021****Advanced Financial Reporting****INSTRUCTIONS TO CANDIDATES:**

1. The time allowed for this examination paper is **3 hours 15 minutes**.
2. This examination paper has **FOUR (4)** questions and comprises **SEVENTEEN (17)** pages (including this instruction sheet and Appendix A). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.
3. This is a restricted open book examination. You are allowed to have only the following materials with you at your exam location:
 - One A4-sized double-sided cheat sheet
 - One A4-sized double-sided blank scratch paper
4. During the examination, you are allowed to use your laptop and any calculators that comply with the SAC's regulations. Please note that watches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination.
5. During the examination, videos of you and your computer screen will be recorded for the purpose of ensuring examination integrity and you have consented to these recordings.
6. This examination paper and all video recordings of this exam are the property of the Singapore Accountancy Commission.

MODULE-SPECIFIC INSTRUCTIONS:

7. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.
8. Unless specified otherwise, assume that all the reporting entities in all the questions adopt, for all the relevant years, the Singapore Financial Reporting Standards (International) (SFRS(I)) that were issued by the Accounting Standards Council as at 1 January 2021.

IMPORTANT NOTICE:

If you are not feeling well, please do not press "Start Assessment". If you have started and leave during the exam, you would be deemed to have attempted the paper.

****VERY IMPORTANT NOTICE****

1. Your question paper is attached under the "**Resource**" tab found at the bottom right of **EACH** question.

Other important information:

2. You will **only be allowed** to access the Excel function from your computer.
3. You are **NOT ALLOWED** to access any websites or reference materials (except for your A4 sized double sided cheat sheet) during the exam.
4. You are **NOT ALLOWED** to print the question paper.
5. **Please take note that your screen will be monitored throughout the examination. If you are found to have accessed unauthorised materials or websites, or if you cheat or attempt to cheat, you will be liable to severe disciplinary action.**

Should you encounter any issues during the exam, please call the following number:

+65 6100 0516

6. **You do not need to fill in an answer for this question.**

Question 1 – (a) and (b)

The following are the summarised financial statements of the Hayes's group of companies:

	Hayes	Scout	Abbott
	\$'m	\$'m	\$'m
Sales	41,763	37,913	14,038
Cost of sales	(22,228)	(29,987)	(6,693)
Gross profit	19,535	7,926	7,345
Other income	2,469	3,824	555
Operating expenses	(13,608)	(8,344)	(2,000)
Interest expenses	(419)	(90)	(325)
Profit before tax	7,977	3,316	5,575
Tax expense	(1,595)	(1,466)	(1,115)
Profit after tax	6,382	1,850	4,460
Other comprehensive income/(loss)	50	115	(320)
Total comprehensive income	6,432	1,965	4,140

Statement of Financial Position

As at 31 December 20x4

	Hayes	Scoot	Abbott
	\$'m	\$'m	\$'m
Non-current Assets			
Property, plant and equipment	14,870	35,680	18,880
Long-term equity investments	560	3,420	2,340
Investment in Scoot Pte Ltd (at cost)	18,500	-	-
Investment in Abbott Pte Ltd (at cost)	7,640	-	-
	<u>41,570</u>	<u>39,100</u>	<u>21,220</u>
Current Assets			
Inventories	8,420	7,650	3,420
Trade and other receivables	3,245	2,606	1,210
Cash and cash equivalents	6,820	714	3,550
	<u>18,485</u>	<u>10,970</u>	<u>8,180</u>
Total Assets	<u>60,055</u>	<u>50,070</u>	<u>29,400</u>
Equity			
Share capital	24,100	15,500	4,500
Fair value reserves	165	540	(1,340)
Retained earnings	29,800	27,140	24,145
	<u>54,065</u>	<u>43,180</u>	<u>27,305</u>
Current Liabilities			
Trade and other payables	4,395	5,424	980
Provision for tax	1,595	1,466	1,115
	<u>5,990</u>	<u>6,890</u>	<u>2,095</u>
Total Equity and Liabilities	<u>60,055</u>	<u>50,070</u>	<u>29,400</u>

Statement of Changes in Equity (extract)
For the financial year ended 31 December 20x4

	Hayes		Scoot		Abbott	
	Fair value reserves \$'m	Retained earnings \$'m	Fair value reserves \$'m	Retained earnings \$'m	Fair value reserves \$'m	Retained earnings \$'m
Balance as at 1 January 20x4	115	24,568	425	26,290	(1,020)	20,485
Total comprehensive income	50	6,382	115	1,850	(320)	4,460
Dividend paid	-	(1,150)	-	(1,000)	-	(800)
Balance as at 31 December 20x4	165	29,800	540	27,140	(1,340)	24,145

Additional information:

1. The Group, consisting of Hayes and Scoot, adopts the proportionate share of the fair value of the subsidiaries' identifiable net assets in measuring any non-controlling interest.
2. Ignore all income tax and deferred tax effects, if any, arising from business combinations.
3. There has been no change in the share capital of all the above companies since the respective acquisition dates.
4. Other income consists of dividend income, short-term lease income and other miscellaneous income.
5. The fair value reserves relate to the revaluation of long-term equity investments held by companies in the Group.
6. When Hayes acquired 9.3m ordinary shares of Scoot on 1 January 20x1:
 - Scoot's net assets were represented by 15.5m ordinary shares of \$15,500m, fair value reserves of \$1,000m and retained earnings of \$8,850m.
 - Scoot's specialised equipment, of remaining useful life of 7 years, was overvalued by \$3,500m. This equipment was sold to an external party at a loss of \$2,000m on 1 July 20x4. This loss was recorded as operating expenses for the current financial year.
 - Scoot's freehold land was undervalued by \$1,500m, and land remained with Scoot as at 31 December 20x4.
7. With effect from 1 January 20x4, Scoot had sold goods to Hayes at cost plus 35%. The sales from Scoot to Hayes for the current financial year amounted to \$5,400m, and 50% of this inventory remained with Hayes at the end of the year. 30% of the amount from the intragroup sales for the year remained outstanding as at 31 December 20x4.

8. Since 1 July 20x4, Hayes extended a short-term lease of 6 months to Scoot to use an office building for \$2m each month as Scoot's office was scheduled for renovation. The lease amount was paid in full by Scoot to Hayes on 31 December 20x4.
9. When Hayes acquired 3.6m ordinary shares of Abbott on 1 January 20x2, Abbott's net assets were represented by 9m ordinary shares of \$4,500m, fair value reserves of debit balance \$800m and retained earnings of \$15,400m.
10. On 1 April 20x4, Abbott sold equipment with a carrying amount of \$2,500m to Hayes for cash of \$1,900m. The equipment's remaining useful life was 5 years. The equipment was still held and used by Abbott as at 31 December 20x4.
11. Assume that a shareholding of more than 50% gives rise to control, while a shareholding between 20% and 50% gives rise to significant influence.
12. The Group adopts the straight-line method to amortise its property, plant and equipment and records depreciation as an operating expense.

**e-Exam
Question
Number**

Question 1 required:

Apply SFRS(I) 3 *Business Combinations*, SFRS(I) 10 *Consolidated Financial Statements* and SFRS(I) 1-28 *Investments in Associates and Joint Ventures* when answering **(a)** and **(b)**:

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- (a)** Prepare the relevant consolidation and equity accounting entries for Hayes Pte Ltd Group for the financial year ended 31 December 20x4. Show the consolidation and equity accounting entries for the current financial year separately from those relating to the prior years.

Present your answers in the following format:

Transaction date

DR Account Name xxx

CR Account Name xxx

(Narration for Journal Entry)

(29 marks)

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- (b)** In relation to the Consolidated Statement of Comprehensive Income as at 31 December 20x4, prepare the independent proof for the total comprehensive income attributable to owners of Hayes, showing the profit or loss and the other comprehensive income separately.

(9 marks)

(Total: 38 marks)

Question 2 – Part I and Part II

Part I

SinoHealth Ltd is a pharmaceutical company, engaged in the research and development (R&D), as well as manufacturing and distribution of drugs for healthcare purposes. The Management is having their quarterly meeting to discuss the company's financial and strategic directions.

The Managing Director was reviewing the accounts and commented, "I saw we had charged a huge sum arising from the R&D of our new drug, being charged to our income statement. I believed this is an error because we used to record such expenditure as our asset for our first commercialised drug "Coronadecine". This error could potentially affect our loan status with the banks!"

The Finance Director, a member of the Institute of Singapore Chartered Accountants, explained the rationale of this treatment, "Unlike "Coronadecine", we do not have any evidence that the new drug is safe for human consumption and effective against the targeted virus. The R&D team had claimed that they are not confident of the commercial feasibility of the new drug. As such, we have to charge the R&D amounts as expenses in the income statement."

Instead of accepting the rationale of the accounting treatment, the Managing Director and the rest of the Management showed much disapproval. Besides supporting the Managing Director, one of the Sales Directors even challenged, "Are you aware of the implications if this set of accounts is published as our year-end performance? Not only will it affect our current and future loans with the banks, but our investors may also lose confidence in us too! This is not even to mention, how our share options will be worth nothing in the end! You are still holding on to some of these options too right?"

The Finance Director fully agreed on the adverse consequences if the company were to present this set of results to the public. However, he had also performed his due diligence and was convinced that the new drug is not ready for commercialisation.

**e-Exam
Question
Number**

Question 2 Part I required:

With reference to Ethics Pronouncement (EP) 100, the *ISCA Code of Professional Conduct and Ethics*:

- 4** **(a)** Identify ONE fundamental principle which is being threatened from the perspective of the Finance Director.
(3 marks)
- 5** **(b)** Describe ONE threat that could compromise, or be perceived to compromise, the Finance Director's compliance with the fundamental principle identified in **(a)** above.
(3 marks)
- 6** **(c)** Recommend ONE appropriate action that the Finance Director could take to eliminate or reduce the threat to the fundamental principle identified in **(b)** above.
(2 marks)
- 7** **(d)** Identify ONE relevant stakeholder and explain how they could be affected if the Finance Director were to change his mind and capitalise the R&D expenditure as assets.
(2 marks)

Part II

Anderson owns 350,000 out of 500,000 ordinary shares in Braddell Co. and 180,000 out of 600,000 ordinary shares in Commonwealth Pte Ltd.

Anderson is also the Finance Director of Dunearn Inc, which holds 25% of the shareholding in Faber Corp. Faber Corp had been providing key management personnel services to Braddell Co. in exchange for an annual fee of \$500,000 since 20x1. Anderson's wife, Alicia, is the Managing Director of Esplanade Pte Ltd.

During the financial year ended 30 June 20x4,

- Braddell Co. sold inventories to Dunearn Inc, amounting to \$2.5 million, out of which \$1 million is still outstanding.
- Commonwealth Pte Ltd sold some old equipment to Braddell Co. for \$200,000 at a loss and transferred some delivery vehicles free of charge.
- Esplanade Pte Ltd entered into a 6-month lease with Braddell Co. to use its office space when the office was renovated. All the outstanding payments have been made by Esplanade Pte Ltd as at financial year-end.

The shareholdings in the respective companies carry voting rights at the general meetings of the companies, where a shareholding of more than 50% gives rise to control and a shareholding of 20% to 50%, inclusive, gives rise to significant influence.

**e-Exam
Question
Number**

Question 2 Part II required:

Apply SFRS(I) 1-24 *Related Party Disclosures* when answering **(a)** and **(b)**:

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(a) For the financial year ended 30 June 20x4, explain if the following are related parties of Braddell Co.:

- (i) Anderson
- (ii) Commonwealth Pte Ltd
- (iii) Dunearn Inc
- (iv) Esplanade Pte Ltd
- (v) Faber Corp

(6 marks)

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(b) State the information and relationships that Braddell Co. needs to disclose under SFRS(I) 1-24 *Related Party Disclosures* in its financial statements for the financial year ended 30 June 20x4.

(5 marks)

(Total: 21 marks)

Question 3 – (a) and (b)

On 1 January 20x1, Genesis Co. acquired an investment in shares of Vivo Ltd at 250,000 ordinary shares at \$1.60 each. It was planned that this investment would be managed on a long-term basis and the Management had elected to record the fair value changes in the investment in a fair value reserve.

On 1 January 20x4, the market share price of Vivo Ltd increased to \$1.75. The Accountant would like to hedge the fair value changes by purchasing a put option for \$5,000 to sell the 250,000 ordinary shares in Vivo Ltd at \$1.75 each on 28 February 20x4, as the intrinsic value of the put option moves in opposite direction compared to the share price. The fair value changes of the put option arises from changes in its intrinsic value caused by share price fluctuations, as well as the time value changes. It was also assessed that the share price changes are unlikely to be caused by credit risk of Vivo Ltd.

The share price of Vivo Ltd and the fair value of the put options are as follows:

As at	Share price (\$)	Fair value of put option (\$)
1 January 20x4	1.75	5,000
31 January 20x4	1.62	34,100
28 February 20x4	1.59	40,000

The put option was subsequently exercised and the shares were sold on 28 February 20x4.

**e-Exam
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Number**

Question 3 required:

Apply SFRS(I) 9 *Financial Instruments* when answering **(a)** and **(b)**:

- 10** **(a)** Assuming there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge, discuss if the proposal by the Accountant could meet the criteria for hedge accounting. **(7 marks)**
- 11** **(b)** Assuming the above met all the hedging criteria, prepare the accounting entries for the events on 1 January 20x4, 31 January 20x4 and 28 February 20x4, recording the fair value changes of the put option due to intrinsic value and time value separately. Indicate clearly in your answer if the fair value changes in the hedging instrument and hedged item are to be recognised as a profit, a loss, or an other comprehensive income item. **(17 marks)**
- (Total: 24 marks)**

Question 4 – (a) and (b)

In 20x1, Turner Construction Co. (“Turner”) entered into a contract to build a manufacturing plant for its customer for \$18.5 million over a period of 2.5 years. The expenditures incurred for the construction are as follows:

For the financial year ended 31 December	20x1 (\$'000)	20x2 (\$'000)	20x3 (\$'000)
Administrative costs	149	185	156
Depreciation of existing construction equipment	650	162	0
Direct labour	1,288	1,572	1,300
Direct materials	2,320	3,180	2,000
Purchase of new construction equipment on 1 July 20x1, depreciable on a straight-line basis over useful life of 3 years with no residual value	2,700	0	0
Penalty incurred due to accidental pollution	0	244	0
Site clearance for handover to customer	0	0	88

In addition, the following information was provided for the accounting of the construction contract:

For the financial year ended 31 December	20x1 (\$'000)	20x2 (\$'000)	20x3 (\$'000)
Estimated costs to complete as at 31 December (only relevant costs are included)	10,000	5,000	0
Billings made to-date	4,625	11,389	18,500
Cash collected to-date	4,211	11,041	16,650

Based on the terms and conditions of the contract, it was concluded that the revenue from the construction contract should be recognised over time, using the cost-to-cost method to determine the percentage of completion for revenue recognition purposes.

**e-Exam
Question
Number**

Question 4 required:

Apply SFRS(I) 15 *Revenue from Contracts with Customers* when answering **(a)** and **(b)**:

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(a) Compute the relevant contract costs for the financial year ended 31 December 20x1, 20x2 and 20x3 for the purpose of determining the percentage-of-completion of the contract. State which items of expenditure are to be excluded and explain why they are excluded. **(7 marks)**

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(b) Assume all the relevant expenditures had been paid and fixed assets had been depreciated as at the financial year end, prepare the necessary journal entries to record the contract costs and revenue, as well as the billings made and the cash collected for the construction contract for the financial year ended 31 December 20x2. Show all your workings. Round off your answers to the nearest \$'000.

(10 marks)

(Total: 17 marks)

END OF PAPER

Appendix A - Common verbs used by the Examiners

Verb	Description
Apply	This instruction requires you to relate your answer back to a specific document/s or set of facts. Alternatively, you may be required to use a specific formula, model, or process. For instance, “ Apply the relevant Singapore Financial Accounting Standard to ...”. Another example would be “ Apply the 3-year and 2-year concessional rules for determining tax residence”. Apply and With reference to are similar.
Compute	Do the number crunching and derive the correct answer.
Describe	Describe requires you to provide the characteristics and features of an item or situation without going into step-by-step detail of how to perform that procedure.
Discuss	Discuss requires you to provide the 'for' and 'against' arguments, you cannot have a discussion without opposing views otherwise it would be just a conversation. If discuss is placed near the front of the instruction, then it requires you to provide an answer that is similar to explain, but addresses both the for and against arguments.
Explain	Explain requires you to write at least several sentences conveying how you have analysed the information in a way that a layperson can easily understand the concept or grasp the technical issue at hand.
Identify	Identify is similar to list, but requires you to also provide an explanation as to why the item/s that you have identified is/are relevant to the facts given in the question.
Prepare Present	Prepare (or present) requires you to produce your answer using a specific format. For instance, “ Present an extract of the notes to the accounts for ...” or “ Prepare all the relevant journal entries for ...”.
Recommend	Make a statement about the most appropriate course of action.
State	State is similar to list , but the items require your professional judgement. For instance, “ State any restrictions that apply”. One of the easiest ways to make sure that you state comprehensively is to think, “ list and justify ”. You will note that state appears in many of the verb descriptions given.
With reference to	This instruction requires you to relate your answer back to a specific document/s or set of facts. Failure to make specific mention of the document/s or facts in your answer will result in a substantial loss of marks.