

Singapore CA Qualification (Foundation) Examination

6 December 2022

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 **EIGHTEEN (18)** 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 2022.

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 Hitech's Group of companies:

	Hitech	Sitech
	\$'000	\$'000
Sales	890,934	578,443
Cost of sales	(652,554)	(460,595)
Gross profit	238,380	117,848
Other income	8,495	3,271
Operating expenses	(159,868)	(95,771)
Interest expenses	(2,333)	(1,138)
Profit before tax	84,674	24,210
Tax expense	(14,149)	(6,950)
Profit after tax / Total comprehensive income	70,525	17,260
Other comprehensive income	550	-
Total comprehensive income	71,075	17,260

Statement of Financial Position

As at 31 December 20x8

	Hitech	Sitech
	\$'000	\$'000
Non-current Assets		
Property, plant and equipment	210,529	72,095
Long-term equity investments	29,490	
Investment in Sitech Pte Ltd (at cost)	62,261	-
Investment in Akitech Pte Ltd (at cost)	16,200	-
	<hr/>	<hr/>
	318,480	72,095
	<hr/>	<hr/>
Current Assets		
Inventories	69,897	36,427
Trade and other receivables	12,989	6,959
Cash and cash equivalents	87,234	28,328
	<hr/>	<hr/>
	170,120	71,714
	<hr/>	<hr/>
Total Assets	488,600	143,809
	<hr/>	<hr/>
Equity		
Share capital	235,373	78,200
Fair value reserves	(2,964)	-
Retained earnings	123,177	33,910
	<hr/>	<hr/>
	355,586	112,110
	<hr/>	<hr/>
Current Liabilities		
Trade and other payables	117,623	24,609

Provision for tax	15,391	7,090
	<hr/>	<hr/>
	133,014	31,699
	<hr/>	<hr/>
Total Equity and Liabilities	488,600	143,809
	<hr/>	<hr/>

Additional information:

1. The Group, consisting of Hitech Pte Ltd (Hitech) and Sitech Pte Ltd (Sitech), 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. Since the respective acquisition dates, there has been no change in the share capital of all the above companies.
4. Other income consists of dividend 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 Hitech acquired 60% of Sitech's total ordinary shares on 1 January 20x5:
 - Sitech's net assets were represented by share capital of \$78.2 million and retained earnings of \$10.8 million.
 - Off-balance sheet intangible asset with a fair value of \$8.4 million and remaining useful life of 10 years, was recognised for Sitech.
 - The fair value of Sitech's inventory is \$2.5 million lower than the carrying amount, and all of this inventory was sold to external customers in the following financial year.
7. For the financial year ended 31 December 20x7, Sitech sold goods to Hitech and some inventories remained unsold as at 31 December 20x7. The intra-group

gross profit arising from these inventories amounted to \$2.6 million. These inventories were subsequently sold to external customers in 20x8. The intragroup balances were fully settled by 31 December 20x7.

8. For the current financial year ended 31 December 20x8, the sales from Sitech to Hitech amounted to \$66 million, and the gross profit from the sales was \$6 million and 80% of this inventory was sold to external customers by the end of the year. 5% of the amounts due from Hitech to Sitech arising from these sales for the current financial year remained outstanding as at 31 December 20x8.
9. Dividends paid by Hitech and Sitech during the current financial year amounted to \$10 million and \$3 million, respectively.
10. When Hitech acquired 40% of the ordinary shares of Akitech Pte Ltd (Akitech) on 1 January 20x7, Akitech's net assets were represented by ordinary shares of \$25.5 million, fair value reserves of debit balance \$2 million and retained earnings of \$17 million. There was no change in the share capital of Akitech since 1 January 20x7.
11. The following extract shows Akitech's statement of changes in equity for the two financial years include:

	For financial year ended 31 December			
	20x7		20x8	
	Fair value	Retained	Fair value	Retained
	reserves	earnings	reserves	earnings
	\$'000	\$'000	\$'000	\$'000
Balance as at 1 January	(2,000)	17,000	(1,560)	21,740
Total comprehensive income	440	5,540	350	2,160
Dividend paid	-	(800)	-	(700)
Balance as at 31 December	(1,560)	21,740	(1,210)	23,200

12. During the financial year ended 31 December 20x8, Akitech sold goods to Hitech for \$22 million. The gross profit arising from the sale is \$3.9 million. On 31 December 20x8, Hitech's inventories included goods invoiced by Akitech amounting to \$8.8 million. As at 31 December 20x8, the amount owing by Hitech to Akitech has been fully settled.

13. Assume that a shareholding of more than 50% gives rise to control, while a shareholding between 20% and 50% gives rise to significant influence.

14. 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)**:

2

- (a)** Prepare the relevant consolidation and equity accounting entries for Hitech Pte Ltd Group for the financial year ended 31 December 20x8. 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)

(26 marks)

3

- (b)** In relation to the consolidated financial statements for the financial year ended 31 December 20x8, prepare the independent proof for the Group's:

- Net profit
- Other comprehensive income
- Total comprehensive income
- Retained earnings

(12 marks)

(Total: 38 marks)

Question 2 – Part I and Part II

Part I

Company A Pte Ltd (Co A) is a locally incorporated company. Its shares are owned by Company B Pte Ltd (Co B), Mr D and Company F Pte Ltd (Co F) and there was no change in shareholding since incorporation. The following shows the number of shares held by each party:

	Number of shares
Co B	550,000
Mr D	230,000
Co F	220,000

Co F has another joint venture in Company G Inc. (Co G), specialising in branding and marketing. In March 20x9, Co G was contracted to design marketing campaigns for Co A and Co B.

Mr D, a local businessman, owns 65% of the shares in Company E International (Co E). Co E is a major customer of Co A, and more than a quarter of its annual revenue came from Co E's purchases of goods from Co A.

On 5 May 20x9, Mr C, the Executive Director of Co B, acquired some redeemable preference shares of Co A, amounting to \$5 million at 5.5% per annum. These shares were secured using the property of Co A.

There was no transaction between Co A and Co B for the current financial year ended 31 December 20x9.

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 I required:

Apply SFRS(I) 1-24 *Related Party Disclosures* when answering the following:

- 4**
- (a)** Explain if the following persons or entities are related parties of Company A Pte Ltd:
- (i) Company B Pte Ltd
 - (ii) Mr C
 - (iii) Mr D
 - (iv) Company E International
 - (v) Company F Pte Ltd
 - (vi) Company G Inc.
- (6 marks)**
- 5**
- (b)** State the information and relationships that Company A Pte Ltd needs to disclose under SFRS(I) 1-24 *Related Party Disclosures* in its financial statements for the financial year ended 31 December 20x9.
- (6 marks)**

Part II

Global Trading Pte Ltd (Global) is a commodity trading company. It purchased 9,500 metric tons of Grade A copper, which originally cost \$121,648,000 when purchased in August 20x1. The inventory was stated at the lower of cost and net realisable value. Global had decided to sell its inventory on 30 November 20x1.

Due to a recent announcement by Country X about the plan to release reserves of key metals, such as copper and brass, the prices of these metals are speculated to fall in the few months. To protect itself from adverse price fluctuations, Global entered into a futures contract on 1 September 20x1 to sell an equal amount of copper at \$13,194 per metric ton on 30 November 20x1. Global applied **cash flow hedge** accounting and had designated the price of the futures contract to hedge the cash flow risk of the highly probable sale of copper-based on the future price. On 30 November 20x1, the futures contract was duly settled. On the same day, 9,500 metric tons of copper were sold for cash at the spot price. The following table shows the price movements of Grade A copper per metric ton:

Date (20x1)	Spot price per metric ton (\$)	Future price per metric ton (\$) for settlement on 30 November 20x1
1 September	13,190	13,194
30 September	12,998	13,005
31 October	12,812	12,805
30 November	12,698	12,698

Assume that Global adopts a perpetual inventory system and SFRS(I) 9 *Financial Instruments* for financial reporting purposes and that the hedge is effective under SFRS(I) 9. Ignore (i) the margin deposit and transaction costs on the futures contract; (ii) the time value of money, as it is not expected to be significant; and (iii) tax effects, if any, arising from the above transactions.

Question 2 Part II required:

6

(a) Prepare the journal entries for Global Trading Pte Ltd to record the following events and transactions as at:

- **30 September 20x1:** changes in value of futures contract
- **31 October 20x1:** changes in value of futures contract
- **30 November 20x1:** changes in value of futures contract, settlement of futures contract and sale of copper inventory

in accordance with SFRS(I) 9 *Financial Instruments*.

Indicate clearly in your answer if each event and/or transaction results in a 'profit or loss item' or an 'other comprehensive income item'. Present your journals in the following format:

Present your answers in the following format:

Transaction date

DR Account Name xxx

CR Account Name xxx

(Narration for Journal Entry)

(16 marks)

(Total: 28 marks)

Question 3 – (a) and (b)

J&J Group sells a variety of consumer products. The Accountant is assessing the Group's cash-generating units (CGUs) for the purposes of impairment testing. There are three subsidiaries, A, B and C, within the Group.

Subsidiary A was incorporated to provide marketing efforts for the products manufactured by Subsidiary B and Subsidiary C. The products sold by Subsidiary B pertain mainly to children's food and supplements, and the products offered by Subsidiary C are mainly sought after by young working adults. It was estimated that 60% of Subsidiary A's assets are channelled to support the operations of Subsidiary B, while the rest supports Subsidiary C. The head office provides administrative and accounting support to the Group, but its assets could not be allocated on a reasonable and consistent basis to the individual subsidiaries.

The Accountant suggested that each subsidiary forms an independent cash-generating unit as each of them prepares annual financial statements for financial reporting purposes. In addition, Subsidiary B and Subsidiary C also present internal management reports to the Chief Executive Officer (CEO) who is responsible for allocating resources to subsidiaries and assessing their performance.

The following shows the financial information of the J&J Group as at 30 June 20x8:

	Head office	Subsidiary A	Subsidiary B	Subsidiary C
	\$'000	\$'000	\$'000	\$'000
Property	5,050	-	-	-
Machinery and other equipment	-	-	2,460	3,340
Other assets within the scope of SFRS(I) 1-36	-	850	330	400

Current assets outside the scope of SFRS(I) 1-36	250	150	240	200
Goodwill	-	-	450	330
Recoverable amount	-	-	2,990	4,560

The recoverable amount of J&J Group as at 30 June 20x8 was estimated to be \$11.4 million.

**e-Exam
Question
Number**

Question 3 required:

Apply SFRS(I) 1-36 *Impairment of Assets* when answering the following:

7

- (a)** Explain what a cash-generating unit is and if the three subsidiaries qualify to be three cash-generating units. If not, identify and explain the relevant cash-generating units in this scenario. **(6 marks)**

8

- (b) Perform an impairment test** for J&J Group, calculating and stating the following:
- The allocation of any impairment loss
- AND**
- The total impairment loss recognised for the financial year ended 30 June 20x8.

Show all workings. Round your answers to the nearest thousand dollar.

(12 marks)

(Total: 18 marks)

Question 4 – (a) and (b)

Shine Construction Pte Ltd (Shine) has a financial year ending every 31 December and it recognises its construction revenue over time according to the input method based on percentage of completion.

On 1 January 20x7, Shine was engaged by Cove Residences (Cove) to build a block of low-rise apartments. The contracted price for this construction project was \$51 million, which was agreed to be billed evenly over three years of construction. During 20x7, cost of \$12.5 million was incurred, with an estimated cost of \$24 million to be incurred for the rest of the two years.

In 20x8, cost of \$15 million was incurred and the remaining costs for the last year was estimated to be \$20 million. Another \$18.2 million was collected from Cove for the billings made.

**e-Exam
Question
Number**

Question 4 required:

Apply SFRS(I) 15 *Revenue from Contracts with Customers* when answering the following:

9

- (a)** Prepare the journal entries for the financial year ended 31 December 20x8. Express your answers to the nearest thousand. Ignore the tax effect, including Goods and Services Tax, if any.

(12 marks)

10

- (b)** Due to the political unrest in the countries exporting the construction raw materials, the estimated costs to complete, to be incurred in 20x9 was expected to increase by 40% from the initial estimate of \$20 million. Compute the foreseeable future loss from this contract for the financial year ended 31 December 20x8. Show all workings and express your answers in millions and two decimal places.

(4 marks)

(Total: 16 marks)

END OF PAPER

Appendix A - Common verbs used by the Examiners

Verb	Description
Compute	Do the number crunching and derive the correct answer.
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.
In accordance with	This instruction requires you to relate your answer back to a specific document. Failure to make specific mention of the document in your answer will result in a loss of marks.
Perform	Carry out a specific function or test in a prescribed manner
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 ...".
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.