Chartered Accountant
SINGAPORE

SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Financial Reporting (FR)

EXAMINATION DATE: 8 June 2021

Section 1
General comments

Generally, Candidates displayed good understanding in the preparation of basic consolidation entries required for Question 1. However, Candidates did not perform well in **part (d)**, in comparison to **parts (a) and (b)**, in terms of preparing the remaining consolidation adjustments relating to P Co's interest in its subsidiary S Co which had a different functional currency.

The overall performance for Question 2 Case A is below expectations. Many Candidates could not identify and explain the cost of setting up the digital platform as development in nature. Candidates also lacked a good knowledge of SFRS(I) 15 *Revenue from Contracts with Customers* and SFRS(I) 5 *Non-Current Assets Held for Sale and Discontinued Operations*, and failed to apply the relevant principles in answering the questions relating to **Case A Situations B and C**.

Question 3 tests Candidates' understanding and ability to account for cash flow hedges in accordance with SFRS(I) 9 *Financial Instruments*. Many Candidates either did not attempt one or both parts of the question. The non-attempt could either be attributed to the lack of time or a lack of knowledge of the topic. If it is the former, Candidates are advised to improve their time management to ensure that time is appropriately allocated to the questions.

Section 2
Analysis of individual questions

Question 1

In this question, Candidates were required to demonstrate their understanding and application of Singapore Financial Reporting Standard (International), SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*, SFRS(I) 9 *Financial Instruments*, SFRS(I) 3 *Business Combinations*, and SFRS(I) 10 *Consolidated Financial Statements*.

Part (a) required Candidates to translate the subsidiary's financial statements from the subsidiary's functional currency to the parent's presentation currency.

Most Candidates performed quite well in this question part, except for the common errors identified below:

- Some Candidates used the wrong exchange rate when translating the:
  - Exchange gain on the bank loan.

If the Candidates have read the question carefully, it was already mentioned in the question that "The exchange gain on the bank loan owing by S Co was recognised on 31 December 20x6, which is deemed the transaction date for this gain". That means the year-end rate at 31 December 20x6 should have been used as the exchange rate for translation.

- Tax expense

Whilst there are several methods to calculate the translated tax expense, the easiest method would be to calculate tax expense by applying the tax rate of 20% on the translated net profit before tax.

- Revaluation reserve (arising as at 31 December 20x3).

This is a pre-acquisition revaluation reserve. As P Co acquired S Co on 1 July 20x4, the exchange rate on 1 July 20x4 should have been used instead.

- There are cases in which the Candidates had wrongly calculated all the translated figures by using the inverse exchange rates instead of direct exchange rates.

  Candidates are reminded to be careful in calculating the translated figures when using the exchange rates.

Part (b) of the question required Candidates to prepare journal entries and consolidation entries for intercompany transfer of goods (upstream) and exchange gain or loss on parent's hedge of net investment.

(b)(i)

Most Candidates did relatively well in this question part. However, a couple of Candidates used the wrong exchange rate. The correct exchange rate should be the exchange rate on the date of sale.

Some Candidates wrongly debited sales while recognising sales. Candidates are encouraged to understand the fundamental journal entries, including sales and purchase, as these are basic accounting for each company.

A few Candidates did not read the question carefully. The question stated that "All transactions related to the inventory were settled in cash immediately”. However, some Candidates debited accounts receivable instead of cash.

(b)(ii)

The common error was using the incorrect exchange rates to recognise the Cost of sales and Inventory. Candidates are encouraged to be familiar with the requirements of SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates* to apply the correct exchange rates.

(b)(iii)

Many Candidates eliminated the sales in S Co correctly. However, many Candidates recorded incorrect entries in eliminating cost of sales and unrealised profit in inventory.

Most Candidates performed well in identifying and calculating the tax effects of eliminating intra-group sales correctly.

Part (c) required Candidates to prepare consolidation entries for the exchange gain or loss on P Co's hedge of net investment and the related tax entry.

Most Candidates performed poorly in this part. Many Candidates credited “Loan” wrongly (instead of “Exchange loss”). The tax entry was also mostly incorrect. Candidates are encouraged to understand the consolidation adjustment entry for exchange gain or loss on Parent's hedge of net investment in accordance with the specific requirements of the standard.

Part (d) of the question required Candidates to prepare the remaining consolidation adjustments relating to a company's (P Co’s) interest in its subsidiary (S Co) which had a different functional currency from P Co. While many Candidates did relatively well on some of the consolidation adjustments pertaining to the elimination of investment in the subsidiary, allocation of post-acquisition retained earnings and revaluation reserves to non-controlling interests (NCI) and elimination of dividends declared by the subsidiary, the other consolidation adjustments were poorly attempted. Common errors included the following:

- Adjustment for translation gain on goodwill – few Candidates used the correct exchange rates and derived the correct translation difference. As a result, many Candidates could not allocate the correct translation difference arising from goodwill to NCI.

- Adjustment relating to the provision of claims – many Candidates either did not adjust or calculated the wrong amounts for the translation differences.

- Allocation of current year profit to NCI – while most Candidates could furnish the correct consolidation entry with respect to the accounts, many Candidates could not work out the correct amounts. Candidates did not either adjust for the unrealised profit arising from the intra-group sale of inventories and/or wrongly included an adjustment for the settlement of the provision of claims. Some Candidates also did not use the translated profit after tax figure from **part (a)** but re-calculated the profit after tax using the wrong exchange rate.

It was also noted that some Candidates omitted the following consolidation adjustments on:

- elimination of the intra-group management fee <u>and/or</u>

- translation gain on goodwill <u>and/or</u>
- allocation of foreign currency translation reserve to NCI.

A handful of the Candidates also wrongly prepared the consolidation adjustments in S Co's functional currency (US$) instead of P Co's functional currency (S$).

Question 2

Q2 Case A Situation A (a)

Many Candidates could not identify or explain the cost of setting up the digital platform as development in nature with reference to SFRS(1) 1-38 *Intangible Assets* and SFRS(I) INT 1-32 *Intangible Assets – Web Site Costs* indicated in the question. As it is a development in nature, SFRS(I) 1-38 *Intangible Assets*, requires the cost to meet all recognition conditions of paragraph 57 before it can be capitalised. As the question requires a comprehensive and systematic evaluation, it is not sufficient to cite the standards without applying the principles to the case facts. The best approach would be to evaluate each of the six conditions from paragraph 57 of SFRS(I) 1-38 *Intangible Assets* to the case facts.

Many Candidates did not consider the six conditions for capitalization in the development phase and instead discussed only in general terms when to recognise an intangible asset.

Q2 Case A Situation B (b)(i)

This part of the question is generally well-done. Most Candidates were able to identify the principles from SFRS(I) 15 *Revenue from Contracts with Customers* and made salient observations from the fact pattern as required. However, many Candidates discussed how to account for the transaction under principal vs agent rather than applying the principles to evaluate if the company was acting as principal or agent.

Q2 Case A Situation B (b)(ii)

Most Candidates failed to identify "transport and delivery" as a separate performance obligation. It is a service that is rendered to the customer, separate from the sale of goods, as the customer has already obtained control of the goods at the point of shipment. Since transport is a performance obligation over time, progressive recognition of revenue is the appropriate basis (refer SFRS(I) 15 paragraph 35(a)).
Many Candidates indicated refund as a separate performance obligation, which is incorrect. The probable refund is a variable consideration that affects the measurement of revenue but is not a separate performance obligation from the sale of goods

Most Candidates indicated sales of goods and loyalty rebates as the performance obligations (POs) and failed to identify all the POs in the case.

Q2 Case A Situation B (b)(iii)

This part of the question required Candidates to indicate the timing of recognition of the revenue. Hence, the relevant date(s) should be included in the answer. More marks could not be awarded to answers which simply state "at a point in time" or "over time". As many Candidates only identified two POs in **part (b)(ii)**, they missed out on "transport and delivery". A number of Candidates also indicated the date of receipt of goods as the point in time to recognise revenue rather than the date of shipment.

Q2 Case A Situation B (b)(iv)

Most of the Candidates were able to identify 2 POs (sales of goods and loyalty rebates) but transport and delivery PO was mainly missed out. Hence, they were not able to obtain full marks. Some Candidates also obtained the standalone value of the sale of goods wrong i.e., they used $120,000 instead of $100,000.

Q2 Case A Situation B (b)(v)

This question was poorly attempted. Common errors included the following:

- Unable to identify the correct dates of the transactions.
- Did not record the entries for purchases and sales of good correctly, i.e., charge to cost of sales upon delivery.
- Did not recognise the contract asset upon delivery and before invoicing the customer.
- Failed to identify the entry for the PO for delivery of goods.

However, some Candidates were able to recognise the loyalty points upon utilisation and expiry.

Q2 (c)

Few of the Candidates have revised SFRS(I) 5 *Non-Current Assets Held for Sale and Discontinued Operations* adequately.

Statement of Comprehensive Income (SOCI) - Some Candidates did not show the results from discontinued operations in a single line and instead presented a separate column for the SOCI of the discontinued operations, resulting in 2 columns of SOCI. Some of the Candidates forgot to account for the fair value loss on the fish farm asset.

Statement of Financial Position (SOFP) – Similarly, many Candidates did not present the assets/liabilities held for sale as a single line item. Some of the

Candidates presented it as non-current, and some Candidates did not show the asset held for sale separately as required.

Question 3

Part (a) required the Candidates to provide the journal entries to account for cash flow hedge relating to the purchase of 10,000 barrels of oil.

A number of Candidates were not familiar with how the forward contract works. For this question, the forward contract was meant to be settled on a cash basis. It meant that there would not be any physical delivery of oil on the settlement date. Instead, the difference in amount based on the spot rate on the settlement date and the forward rate would be settled in cash. Since there was a gain on settlement, cash would have been received by Co L. However, some Candidates assumed that physical oil would be delivered on settlement and provided incorrect journal entries.

Due to the lack of understanding of hedge accounting, many Candidates could not compute the change in intrinsic value in the forward contract. As a result, some Candidates mistakenly charged the gain or loss to the profit or loss account instead of other comprehensive income. However, the question specifically mentioned that the forward contract qualified as an effective hedge in accordance with SFRS(I) 9 *Financial Instruments*. Since the forward contract is a hedge of a probable forecast purchase, it should be accounted for as a cash flow hedge.

When accounting for the physical delivery of oil, many Candidates credited Cash instead of a payable account when the question specifically mentioned that the credit terms had been extended till 30 November 20x8. Therefore, Candidates are encouraged to read the questions carefully to avoid losing marks unnecessarily.

Part (b) required the Candidates to work out the effective interest rate implicit in the extended credit terms, prepare the amortisation table on a per annum basis from 1 December 20x6 to 30 November 20x8, and provide the journal entry to record the interest expense for the year ended 31 December 20x6.

More Candidates were able to answer this part of the question compared to **Part (a)**. However, some Candidates lost marks due to carelessness. For example, the question specifically required the Candidates to calculate the effective interest rate per annum to four decimal points. Yet, some Candidates provided their answers to fewer than four decimal points.

Despite repeated reminders in previous reports, some Candidates still did not provide relevant workings in their answers. This made it impossible to give marks for workings when the final answer is incorrect.

The final portion of this question required the Candidates to record the journal entry for the interest expense for the year ended 31 December 20x6. A number of Candidates failed to consider that the date of the transaction was 30 November 20x6, so the amount of interest expense to accrue should only be one month and not the entire year's interest amount. Again, Candidates are advised to read the question carefully.