



Singapore CA Qualification (Foundation) Examination

5 December 2023

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 ACRA'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 Accounting and Corporate Regulatory Authority.

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 2023.

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 6865 9365

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 Hanns' group of companies:

	Hanns	Spencer	Avante
	\$'000	\$'000	\$'000
Sales	130,730	75,300	20,320
Cost of sales	(48,010)	(36,480)	(9,850)
Gross profit	82,720	38,820	10,470
Other income	4,770	1,610	350
Operating expenses	(78,273)	(33,400)	(9,054)
Profit before tax	9,217	7,030	1,766
Tax expense	(1,657)	(1,290)	(316)
Profit after tax	7,560	5,740	1,450
Other comprehensive income/(loss)	660	550	220
Total comprehensive income	8,220	6,290	1,670

Statement of Financial Position

As at 31 December 20x8

	Hanns \$'000	Spencer \$'000	Avante \$'000
Non-current Assets			
Property, plant and equipment	134,960	56,100	25,670
Investment in Spencer Pte Ltd (at cost)	43,100	-	-
Investment in Avante Pte Ltd (at cost)	8,760	-	-
	186,820	56,100	25,670
Current Assets			
Inventories	9,123	5,890	2,050
Trade and other receivables	24,407	12,900	4,120
Cash and cash equivalents	2,880	2,200	770
	36,410	20,990	6,940
Total Assets	223,230	77,090	32,610
Equity			
Share capital	125,600	35,600	16,500
Revaluation reserves	16,990	7,230	1,930
Retained earnings	54,100	18,700	10,010
	196,690	61,530	28,440
Current Liabilities			
Trade and other payables	25,195	14,520	3,938
Provision for tax	1,345	1,040	232
	26,540	15,560	4,170
Total Equity and Liabilities	223,230	77,090	32,610

Statement of Changes in Equity (extract)
For the financial year ended 31 December 20x8

	Hanns		Spencer		Avante	
	Revaluation reserves	Retained earnings	Revaluation reserves	Retained earnings	Revaluation reserves	Retained earnings
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 January 20x8	16,330	48,910	6,680	14,460	1,710	9,400
Total comprehensive income	660	7,560	550	5,740	220	1,450
Dividend paid	-	(2,370)	-	(1,500)	-	(840)
Balance as at 31 December 20x8	16,990	54,100	7,230	18,700	1,930	10,010

Additional information:

1. The Group, consisting of Hanns and Spencer, 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. Assume that a shareholding of more than 50% gives rise to control, while a shareholding between 20% and 50% gives rise to significant influence.
4. There has been no change in the share capital of all the above companies since the respective acquisition dates.
5. The Group adopts the straight-line method to depreciate its property, plant and equipment. Depreciation is computed to the nearest month of usage, and recorded as an operating expense.
6. Other income consists of dividend income and other miscellaneous income.
7. The revaluation reserves relate to the revaluation of property, plant and equipment held by companies in the Group.
8. When Hanns acquired 14 million of Spencer's 20 million ordinary shares on 1 January 20x3:
 - Spencer's net assets were represented by share capital of \$35.6 million, revaluation reserves of \$5.9 million and retained earnings of \$11.2 million.
 - Spencer's factory building, with a remaining useful life of 10 years, was assessed with a fair value which exceeded its carrying amount by \$3.3 million. Spencer sold the building at net book value to an external party on 31 August 20x7.

9. On 1 January 20x4, Spencer sold equipment with a carrying amount of \$5.6 million, and remaining useful life of 8 years to Hanns for \$4 million. The equipment was still held and in use by Hanns on 31 December 20x8.
10. During the current financial year, Hanns sold inventories which cost \$5.1 million to Spencer for \$8.7 million. As at 31 December 20x8, Spencer had sold 60% of the inventories to parties external to the Group and paid \$4.5 million to Hanns for the sale transactions.
11. Hanns acquired a 40% stake in Avante on 1 January 20x4, when the fair value of Avante's net assets were represented by ordinary shares of \$16.5 million and retained earnings of \$5.4 million.
12. During the current financial year, Avante sold inventories to Hanns for \$2.6 million, recording a gross profit of \$1.2 million from the sale. As at 31 December 20x8, \$0.91 million of the inventories remained unsold, and Hanns had fully settled the amount owed to Avante.

**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 Hanns' group of companies 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	
	\$'000
DR Account Name	xxx
CR Account Name	xxx
(Narration for Journal Entry)	

(30 marks)

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- (b)** In relation to the Consolidated Statement of Comprehensive Income for the financial year ended 31 December 20x8, prepare the independent proof for each of the following attributable to owners of Hanns:
- Net profit (or loss) after tax;
 - Other comprehensive income; and
 - Total comprehensive income.

(7 marks)

(Total: 37 marks)

Question 2 – Part I and Part II

Part I

Yuki Co. (“Yuki”), with a financial year-end of 31 December, is a global manufacturer and retailer of home cleaning and air-purification appliances.

On 1 January 20x1, Yuki acquired production equipment for \$2.5 million. The equipment has an expected useful life of 10 years and residual value of \$200,000. Yuki adopts the straight-line method to depreciate its property, plant and equipment.

In January 20x2, in accordance with the company’s internal audit procedures, Yuki’s management sought expert opinion and estimated the recoverable amount of the equipment to be \$2 million. The management decided then to provide for any impairment loss as necessary.

A global pandemic which broke out in the 2nd quarter of 20x3 resulted in travel curbs and closure of workplaces and schools. Demand for Yuki’s products surged as consumers stayed home and conducted their daily activities from home.

Yuki’s management estimated the recoverable amount of the equipment to be \$1.9 million in January 20x4.

**e-Exam
Question
Number**

Question 2 Part I required:

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

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- (a) Record and prepare the relevant journal entries to the equipment's carrying amount in financial years ended 31 December 20x2, 20x3 and 20x4. Show all workings clearly.

Present your answers in the following format:

Transaction date

\$'000

DR Account Name xxx

CR Account Name xxx

(Narration for Journal Entry)

(13 marks)

Part II

Unity Co. was reviewing its operations and considered to sell some of its assets, measured using cost model with straight-line depreciation over the useful life and nil residual value. The following shows extracts of minutes from the recent management meeting in November 20x8:

Asset	Date purchased	Useful life	Cost (\$)	Fair value less costs to sell (\$)	Notes
A	1/1/20x4	7	420,000	125,000	The asset is to be abandoned.
B	1/1/20x6	5	300,000	138,000	The asset could be sold in its present condition without any repair and furnishing. However, the management has not put in place an active sale plan as at 31 December 20x8.
C	1/1/20x7	3	390,000	95,000	The company has found a buyer for this asset, and it could be sold in its current condition in early 20x9.

**e-Exam
Question
Number**

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Question 2 Part II required:

(a) Apply SFRS(I) 5 *Non-current Assets Held for Sale and Discontinued Operations*, state if the above assets should be classified as “held-for-sale” and determine their carrying amount as at 31 December 20x8, stating any impairment loss.

(9 marks)

(Total: 22 marks)

Question 3 – Part I and Part II

Part I

Anchor Co. (“Anchor”) is restructuring its capital to raise funds for business expansion. It issued the following financial instruments on 1 April 20x6:

- Perpetual bonds, amounting to \$10 million which entitled the bondholders to interest income at 7% per annum. The effective interest rate is the same as at issuance. However, Anchor has no obligation to repay the bondholders their principal amount invested.
- Preferred shares amounting to \$10 million, and dividends are paid at Anchor’s discretion. There is an option for Anchor to redeem the shares at any time three years later.

**e-Exam
Question
Number**

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Question 3 Part I required:

- (a) An intern recording the financial instruments commented that both the \$10 million bonds and \$10 million preferred shares should be classified as equity. Discuss if the proposal of such classification is appropriate in accordance with SFRS(I) 1-32 *Financial Instruments: Presentation*.

(6 marks)

Part II

Bosch Inc. (Bosch) purchased a 10-year bond issued by Rexroth Ltd (Rexroth) for investment purposes at \$8,000,000 on 1 April 20x6. The bond entitled to 5.5% interest per annum and the effective interest rate is the same as at issuance. While the objective to hold the investment is to collect the interest and principal due, Bosch would consider to sell the bond if the financial need arises.

The fair value of the bond was \$7,800,000 and \$7,000,000 on 31 March 20x7 and 31 March 20x8 respectively due to fluctuations in the interest rate environment. The 12-month expected credit losses amount to \$50,000 on 31 March 20x7 and increased to \$300,000 on 31 March 20x8. However, there is no significant increase in credit risk. On 1 April 20x8, Bosch decided to sell the debt instrument for its fair value of \$7,000,000.

e-Exam Question Number

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Question 3 Part II required:

- (a) In accordance with SFRS(I) 9 *Financial Instruments*, prepare the accounting entries for Bosch Inc. as at:
- (i) 1 April 20x6 for the purchase of the bond, stating its SFRS(I) 9 classification of the financial assets;
 - (ii) 31 March 20x7 and 31 March 20x8 for any change in fair values, interest income received and any impairment; and
 - (iii) 1 April 20x8 for the sale of the bond.

Present your answers in the following format:

Transaction date

\$'000

DR Account Name xxx

CR Account Name xxx

(Narration for Journal Entry)

(12 marks)

(Total: 18 marks)

Question 4 – Part I and Part II

Part I

Company A Pte Ltd (Co A) holds 60% of the shareholding in Company B Pte Ltd (Co B) and 75% of the shareholding in Company C Pte Ltd (Co C). Mr D is the managing director of Co A and he holds 55% of the shares in Company E Pte Ltd (Co E) and 30% in Company F Pte Ltd (Co F).

During the current financial year, the following transactions happen:

- Co C issued share options to Mr D as part of his compensation package as Co A's managing director.
- Co C sold its merchandise at a discounted price to Co B, who then sells to external parties at a 15% mark-up.
- Co E leased its office space to Co C during its office's renovation for six months.
- Co F gave away some old equipment to Co C free-of-charge.

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 4 Part I required:

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

- 8**
- (a)** Explain if the following persons or entities are related parties of Company C Pte Ltd:
- (i) Company A Pte Ltd
 - (ii) Company B Pte Ltd
 - (iii) Mr D
 - (iv) Company E Pte Ltd
 - (v) Company F Pte Ltd
- (6 marks)**
- 9**
- (b)** State the information and relationships that Company C Pte Ltd needs to disclose in accordance with SFRS(I) 1-24 *Related Party Disclosures* in its financial statements for the current financial year.
- (5 marks)**

Part II

Lam and Lamb Engineering entered into a contract with a property developer Reborn Development to construct a building for \$8,800,000 in 20x1. It recognises its construction revenue over time according to the input method based on percentage of completion. Based on the accounting records, the following amounts were extracted:

For the financial year ended 31 December	Costs incurred during the financial year (\$'000)	Estimated cost to complete (\$'000)
20x1	\$2,220	\$5,180
20x2	\$4,750	\$1,230

Progress billings of \$3,300,000 and \$4,590,000 were made during the financial year ended 31 December 20x1 and 20x2 respectively.

e-Exam Question Number

Question 4 Part II required:

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

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- (a) Prepare the journal entries to record the costs incurred, progress billings made, as well as construction revenue and cost for the financial year ended 31 December 20x2. Ignore the tax effect, including Goods and Services Tax, if any.

(9 marks)

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- (b) Compute the contract balance, stating if it is an asset or a liability as at 31 December 20x2.

(3 marks)

(Total: 23 marks)

END OF PAPER

Appendix A - Common verbs used by the Examiners

Verb	Description
Apply	Relate your answer back to a specific document/s or set of facts.
Compute	Do the number crunching and derive the correct answer.
Determine	Ascertain or conclude after analysis and evaluation the most appropriate course of action or most correct answer from a range of viable alternatives.
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.
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.
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 ...".
Record	Record is similar to prepare in that you may need to perform a calculation and show the specific components in an appropriate format.
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.