

Singapore CA Qualification Examination

22 June 2023

Financial Reporting

INSTRUCTIONS TO CANDIDATES:

1. The time allowed for this examination paper is **3 hours and 15 minutes**.
2. This examination paper has **THREE (3)** questions and comprises **FIFTEEN (15)** pages (including this instruction sheet and Appendix A) and **ONE (1)** EXCEL spreadsheet (Appendix A). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.
3. This is an open book examination. During the examination, you are allowed to use your laptop and any calculators that comply with the ACRA's regulations. Please note that smart watches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination.
4. 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.
5. This examination paper is the property of the Accounting and Corporate Regulatory Authority.

MODULE-SPECIFIC INSTRUCTIONS:

6. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.
7. 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 "**Resources**" tab found at the bottom right of **EACH** question.
2. You may also download the question paper that allows annotation throughout your exam in Question 1 of the e-Exam portal.
3. Please download the relevant required Appendix in Question 1 of the e-Exam portal.

Other important information:

4. You will be allowed to access your reference materials but **will not be allowed** to communicate with anyone either physically or through any electronic means.
5. You are **NOT ALLOWED** to access any websites during the exam.
6. You are **NOT ALLOWED** to print the question paper.
7. **Please take note that your screen will be monitored throughout the examination. If you are found to have accessed any 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 0518

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

Question 1 – (a), (b) and (c)

The current abridged financial statements of P Co, X Co and Y Co are shown below. P Co acquired control of X Co's sub-group on 1 January 20x4. Earlier on, X Co had acquired control of its subsidiary Y Co on 1 July 20x3.

Abridged Income Statement and Statement of Changes of Equity for the year ended 31 December 20x6

	P Co	X Co	Y Co
Profit before tax	2,500,000	1,200,000	700,000
Tax	(500,000)	(240,000)	(140,000)
Profit after tax	2,000,000	960,000	560,000
Dividends declared	(150,000)	(70,000)	(50,000)
Profit retained	1,850,000	890,000	510,000
Retained earnings, 1 January 20x6	3,670,000	660,000	480,000
Retained earnings, 31 December 20x6	5,520,000	1,550,000	990,000

Abridged Statement of Financial Position as at 31 December 20x6

	P Co	X Co	Y Co
Investment in X Co	2,000,000		
Investment in Y Co		900,000	
Amount due from X Co	150,000		
Amount due to P Co		(150,000)	
Other net assets	5,570,000	1,850,000	1,825,000
Net assets	7,720,000	2,600,000	1,825,000
Share capital	2,200,000	1,050,000	700,000
Retained earnings	5,520,000	1,550,000	990,000
Other comprehensive income (OCI)			135,000
Equity	7,720,000	2,600,000	1,825,000

Table A shows the information relating to the acquisition of X Co and Y Co.

Table A: Information relating to the acquisition of X Co and Y Co

	X Co	Y Co
Date of acquisition by <u>immediate</u> parent	1 January 20x4	1 July 20x3
Percentage acquired by P Co	90%	
Percentage acquired by X Co		60%
Shareholders' equity at date of acquisition by <u>immediate</u> parent		
Share capital	1,050,000	700,000
Retained earnings	260,000	156,000
Other comprehensive income		80,000
Shareholders' equity	1,310,000	936,000
Fair value of non-controlling interests on 1 January 20x4	200,000	660,000
Fair value of non-controlling interests on 1 July 20x3		560,000
Retained earnings of Y Co on 1 January 20x4 (when X Co was acquired by P Co)		240,000
Other comprehensive income of Y Co on 1 January 20x4		100,000
Additional other comprehensive income of Y Co arising on 31 December 20x5		35,000

Table B shows the fair value and book value of identifiable net assets as at the date of acquisition of X Co and Y Co by P Co.

Table B: Fair value and book value of identifiable net assets as at date of acquisition of X Co and Y Co by P Co

	X Co-----→		Y Co-----→	
	Book value	Fair value	Book value	Fair value
Inventory	100,000	120,000		
Fixed assets			150,000	200,000
Other net assets	1,210,000	1,210,000	890,000	890,000
Total net assets	1,310,000	1,330,000	1,040,000	1,090,000

Additional information relating to P Co, X Co and Y Co:

1. Unless otherwise stated, apply a tax rate of 20% on fair value differentials and other adjustments. Dividend income received is tax-exempt.
2. P Co measures non-controlling interests at full fair value on the acquisition date.
3. P Co and X Co measure investments in subsidiaries in their separate financial statements at cost.

Additional information relating to P Co:

On 1 January 20x6, P Co provided a guarantee to an unrelated bank on a loan of \$10 million granted by the bank to X Co. The guarantee is enforceable during the period of the loan of 10 years. P Co charged X Co a fee of \$10,000 for providing the guarantee. X Co paid the fee of \$10,000 in full on 1 January 20x6. The arms-length market fee for providing a guarantee on a 10-year loan of \$10 million to X Co is \$10,000. On 31 December 20x6, X Co was in good credit standing. Both P Co and X Co recorded the transactions relating to the guarantee properly in accordance with the requirements of SFRS(I) 9 *Financial Instruments*, SFRS(I) 15 *Revenue from Contracts with Customers* and other relevant accounting standards. Ignore the time value of money on the 10-year loan guarantee fee.

Additional information relating to X Co:

1. The undervalued inventory of X Co was sold in 20x5 for \$135,000.
2. On 31 December 20x6, X Co sold excess fixed assets to P Co for \$120,000 when the original cost was \$200,000 and its net book value was \$150,000. The recoverable amount of the fixed assets was \$130,000 at the date of transfer. The remaining useful life of the asset at the date of transfer was 5 years.

Additional information relating to Y Co:

1. The undervalued fixed assets had a remaining useful life of 10 years at date of acquisition by P Co. The fixed assets were sold for \$150,000 as at 31 December 20x6.

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Question 1 required:

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- (a)** Enact the journal entries in the stand-alone books of P Co during 20x6 with respect to the guarantee in accordance with the requirements of Singapore Financial Reporting Standards (International) (SFRS(I)) 9 *Financial Instruments* and other relevant standards. Ignore taxes. **(2 marks)**

Apply SFRS(I) 3 *Business Combinations* and SFRS(I) 10 *Consolidated Financial Statements* and answer the following:

3

- (b)** Prepare the consolidation journal entries in relation to P Co and its subsidiaries for the year ended 31 December 20x6. **(36 marks)**

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- (c)** Analytically determine the balance of non-controlling interests (proof of balance) of X Co and Y Co as at 31 December 20x6. The compilation of the listing of consolidation journal entries is not required. The split between direct and indirect non-controlling interests of Y Co is not required. **(7 marks)**

(Total: 45 marks)

Question 2 – Case A and Case B

Case A

On 1 January 20x5, I Co acquired 50% of the shares of A Co for S\$5,000,000 which enables I Co to exercise “significant influence” over A Co. The functional currency of A Co is the United States dollar (US\$) while the presentation and functional currency of I Co is the Singapore dollar (S\$). On 1 January 20x5, the shareholders’ equity of A Co was as follows:

	US\$
Share capital on 1 January 20x5	2,800,000
Retained earnings on 1 January 20x5	1,530,000
Shareholders’ equity	<u>4,330,000</u>

On 1 January 20x5, A Co had an unrecognised intangible asset whose fair value is US\$600,000. The estimated useful life of the intangible asset is 10 years.

On 1 October 20x5, A Co declared and paid tax-exempt dividends of US\$100,000 to its investors. Aside from the dividends, there were no other movements in equity in 20x5 other than net profit after tax which occurred evenly during 20x5.

The abridged financial statements of A Co for 20x6 are shown on the next page. On 1 December 20x6, A Co declared and paid tax-exempt dividends of US\$30,000 to its investors. Revenue and expenses occurred evenly during 20x6.

Tax rate is 20% throughout. Recognise tax effects where appropriate.

Abridged Income Statement and partial Statement of Changes in Equity of A Co for the year ended 31 December 20x6

	US\$	Rate	S\$
Net profit before tax	320,000		
Tax expense	(64,000)		
Net profit after tax	<u>256,000</u>		
Dividends declared	(30,000)		
Profit retained	<u>226,000</u>		
Retained earnings, 1 January 20x6	1,800,000		
Retained earnings, 31 December 20x6	<u>2,026,000</u>		

Abridged Statement of Financial Position as at 31 December 20x6

	US\$	Rate	S\$
Net assets	<u>4,826,000</u>		
Share capital	2,800,000		
Retained earnings	2,026,000		
Foreign Currency Translation Reserve (FCTR)			
Equity	<u>4,826,000</u>		

Exchange rates are as follows:

	S\$:US\$1
1 January 20x5	1.40
Average for 20x5	1.38
1 October 20x5	1.35
31 December 20x5	1.36
Average for 20x6	1.34
1 December 20x6	1.32
31 December 20x6	1.30

**e-Exam
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Question 2 Case A required:

- 5** **(a)** Using the closest appropriate rate, translate the United States dollars (US\$) financial statements for 20X6 to Singapore dollars (S\$) in accordance with the requirements of SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*. You may present your answer on Appendix A.
- (9 marks)**
- 6** **(b)** Prepare equity accounting entries in Singapore dollars (S\$) for the year ended 31 December 20x6 to recognise I Co's interest in A Co in accordance with the requirements of SFRS(I) 1-28 *Investments in Associates and Joint Ventures* and SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*. For simplicity, current and prior balances of Foreign Currency Translation Reserves need not be separated.
- (12 marks)**
- 7** **(c)** Analytically determine the balance of Investment in A Co (proof of balance) that should be presented in the consolidated financial statements of I Co as at 31 December 20x6. The compilation of the listing of equity accounting entries is **not** required.
- (3 marks)**

Case B

Lessee Co entered a lease contract on 1 January 20x4 to lease a truck from Dealer Co on the following terms:

- The annual lease payment, payable and paid in advance on 1 January is \$86,791.
- The lease period is three years from 1 January 20x4.
- The implicit rate in the lease, known by Lessee Co, is 5% per annum.
- Under the lease contract, Lessee Co is allowed to fit a small kitchen in the truck to convert the vehicle into a mobile food truck. At the end of the lease, Lessee Co must remove the kitchen and restore the truck to Dealer Co in the truck's original condition. On 1 January 20x4, Lessee Co estimates the provision for restoration to be \$10,000. Ignore the time value of money for the provision for restoration.
- Lessee Co also has the obligation to guarantee that the residual value of the truck at the end of the lease term will not fall below \$100,000. On 1 January 20x4, Lessee Co expects the residual value to be \$95,000 at the end of the lease term, resulting in an expected loss on the guarantee of \$5,000.
- Lessee Co must also pay an additional lease payment based on 1% of annual actual sales from the food truck to Dealer Co at the end of each year during the lease period. The expected annual average sales are \$500,000.

Information of events occurring on 31 December 20x6:

Events
The actual restoration costs were \$13,000 and were paid on 31 December 20x6.
The actual residual value of the truck on 31 December 20x6 was \$105,000. Lessee Co was absolved of all liabilities with respect to the residual value.
The actual sales for 20x6 from the mobile food truck were \$600,000. Lessee Co paid the additional lease payment in cash on 31 December 20x6.

Ignore taxes.

**e-Exam
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Question 2 Case B required:

- 8** **(a)** Determine the amount of leased asset and lease liability at inception of the lease on 1 January 20x4, in accordance with SFRS(I) 16 *Leases* and other relevant SFRS(I).
(3 marks)
- 9** **(b)** Prepare the journal entry to recognise the leased asset and lease liability on inception of the lease on 1 January 20x4.
(2 marks)
- 10** **(c)** Prepare the lease amortisation table for the lease throughout the lease term.
(4 marks)
- 11** **(d)** Prepare the journal entries to recognise all transactions related to the lease on 1 January 20x6 and 31 December 20x6.
(7 marks)
- (Total: 40 marks)**

Question 3 – Case A and Case B

Case A

Since its conception in 2008, bitcoin, a crypto currency, has risen astronomically in value. Unlike physical currencies, a crypto currency operates without a central bank and can be transferred from one user to another directly, without an intermediary. It is therefore, not a legal fiat (i.e. government-issued) currency.

Investors hold bitcoin to profit from price rises. The holding strategy for the investors varies from speculative to long term holdings. They may also use bitcoin as a means of settlement. The history of the price of bitcoin shows significant volatility, particularly as evidenced by spectacular collapses of FTX and other entities in the crypto currency business.

Another group called the miners are rewarded with bitcoin for harnessing computer power to solve complex mathematical problems to maintain and support the underlying blockchain technology. This question focuses on the accounting for bitcoin from the perspective of the investors and not the miners.

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Question 3 Case A required:

- (a)** Does bitcoin held by an investor qualify as a financial asset in accordance with SFRS(I) 1-32 *Financial Instruments: Presentation*? Explain. **(6 marks)**

Case B

Investor Co entered the following transactions during the year ended 31 December 20x6. The transactions are settled in cash.

Date	Event	Market price per share of A Co on that date
15 March 20x6	Purchased 200,000 shares of A Co	\$9.00
	Elected to measure A Co's shares at fair value through other comprehensive income (FVOCI)	
20 March 20x6	Purchased 200,000 units of put options to hedge 200,000 A Co's shares	\$9.50
	Option premium: \$20,000	
	Maturity date: 20 October 20x6	
	Strike price: \$9.50	
	Investor Co chose not to separate the time value from the intrinsic value	
	Investor Co applies hedge accounting. The put options are deemed an effective hedge of A Co's shares	
	On maturity date, the put options will be settled net in cash	
1 May 20x6	Dividend received from A Co at \$0.20 per share	
30 June 20x6	Significant deterioration in credit risk of A Co	\$5.00
20 October 20x6	Sold 200,000 A Co's shares	\$4.50

	Exercised put options at maturity and net settlement received	
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Ignore tax effects.

**e-Exam
Question
Number**

Question 3 Case B required:

13

- (a)** Prepare the journal entries to record the transactions relating to A Co's shares and the put options for Investor Co for the year ended 31 December 20x6 in accordance with SFRS(I) 9 *Financial Instruments*. Indicate clearly if gains or losses or income or expenses are taken to other comprehensive income (OCI) or profit or loss (PL). If none is indicated, it will be assumed to refer to profit or loss.

(6 marks)

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- (b)** If Investor Co had not sold the shares and A Co declared bankruptcy before 31 December 20x6, would Investor Co have to recognise the impairment loss in profit or loss? Explain.

(3 marks)

(Total: 15 marks)

END OF PAPER

Appendix A

<i>Abridged Income Statement and partial Statement of Changes in Equity of A Co for the year ended 31 December 20x6</i>			
	US\$	Rate	S\$
Net profit before tax	320,000		
Tax expense	(64,000)		
Net profit after tax	<u>256,000</u>		
Dividends declared	(30,000)		
Profit retained	<u>226,000</u>		
Retained earnings, 1 January 20x6	1,800,000		
Retained earnings, 31 December 20x6	<u><u>2,026,000</u></u>		
<i>Abridged Statement of Financial Position as at 31 December 20x6</i>			
	US\$	Rate	S\$
<i>Net assets</i>	<u>4,826,000</u>		
Share capital	2,800,000		
Retained earnings	2,026,000		
Foreign Currency Translation Reserve (FCTR)			
<i>Equity</i>	<u><u>4,826,000</u></u>		