FP

Singapore CA Qualification (Foundation) Examination

7 December 2022

Principles of 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, Appendix A and Appendix B). 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.

9.   Present all Journal Entries in the following format:

Transaction date	
DR Account Name	xxx
CR Account Name	xxx
(Narration or journal title)	

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.

e-Exam Question Number	
	VERY IMPORTANT NOTICE
1	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), (b) and (c)

You recently joined Bishan Pte Ltd (Bishan) as a junior accountant and have inherited the following unadjusted trial balance as of 30 September 20x2:

	$'000	$'000
Plant and equipment (cost)	2,890	
Motor vehicles (cost)	1,420	
Plant and equipment (accumulated depreciation)		578
Motor vehicles (accumulated depreciation)		520
Investment in unquoted shares	584	
Inventories (as at 1 October 20x1)	550	
Cash in bank	375	
Cash in hand	35	
Trade receivables	941	
Trade payables		1,479
Borrowings		800
Sales		8,159
Purchases	2,160	
Sales returns	75	
Purchase returns		42
Selling and distribution expenses	1,574	
Administrative and other expenses	2,717	
Interest expense	44	
Share capital		1,000
Dividends paid	420	
Retaining earnings		1,207
	13,785	13,785

The following information relates to the financial year ended 30 September 20x2 (FY20x2):

(1)   Depreciation has not been recorded yet and adopts the following depreciation policies:

- Plant and equipment = Straight-line method at 10% per year
- Motor vehicles = Declining-balance method at 30% per year

Depreciation relating to plant and equipment shall be allocated to the cost of sales, and depreciation relating to motor vehicles shall be assigned to selling and distribution expenses.

(2)   As of 30 September 20x2, the cost and net realisable value of inventories are $822,000 and $788,000, respectively.

(3)   During FY20x2, Bishan invested in 100,000 ordinary shares in Woodlands Pte Ltd (Woodlands). Management has elected to measure all equity investments at fair value through other comprehensive income because it is not held for trading. This is the only investment in unquoted shares held by Bishan. On 18 September 20x2, a dividend of $0.50 per share was declared and approved but was paid in November 20x2. The fair value of Woodlands's shares was fair valued at $6.10 per share as of 31 September 20x2. The fair value change and dividends declared relating to Woodlands have not been recorded.

(4)   Borrowings bear interest of 5% per year, and interest since 1 July 20x2 has not been accrued yet. As of 30 September 20x2, $300,000 is payable by 31 December 20x2 and the balance by 31 December 20x3.

(5)   Commission for sales staff amounting to $162,000 (which forms parts of selling and distribution expenses) is payable as of 30 September 20x2 but has not been accrued yet.

(6)   On 15 October 20x2, it was discovered that an advertisement (recorded under selling and distribution expenses) amounting to $103,000 was erroneously

classified as expenses. It should have been recorded as a prepayment, and no adjustment has been made to this effect.

(7) The tax agent estimated current income tax payable and deferred tax liabilities to be $213,000 and $152,000, respectively.

(8) As of 1 October 20x1, the share capital was $850,000.

(9) Dividend income, interest income, etc., should be classified as 'Other Income' in the financial statements.

Except for item (7) above, ignore the effects of income tax arising from all the other events and/or transactions.

e-Exam Question No	Question 1 required:
2	**(a)** Prepare the Statement of Profit or Loss and Other Comprehensive Income for Bishan Pte Ltd for the financial year ended 30 September 20x2 in accordance with SFRS(I) 1-1 *Presentation of Financial Statements* and all relevant accounting standards. Show all necessary workings. **(12 marks)**
3	**(b)** Prepare the Statement of Financial Position for Bishan Pte Ltd for the financial year ended 30 September 20x2 in accordance with SFRS(I) 1-1 *Presentation of Financial Statements* and all relevant accounting standards. Show all necessary workings. **(14 marks)**
4	**(c)** Prepare the Statement of Changes in Equity for Bishan Pte Ltd for the financial year ended 30 September 20x2 in accordance with SFRS(I) 1-1 *Presentation of Financial Statements* and all relevant accounting standards. Show all necessary workings. **(5 marks)** **(Total: 31 marks)**

Question 2 – (a) and (b)

Clementi Pte Ltd (Clementi), whose functional currency is Singapore Dollar (S$), operates a S$ bank account. As part of its expansion plan into the United States, the following transactions were entered into during the financial year ended 31 December 20x7:

- 5 January: Transferred S$250,000 into a new bank account denominated in US Dollar (US$). This bank account was used to pay/receive all transactions denominated in US$.

- 13 February: Purchased 10 units of Product ZUM-88 for US$50,000 and settled in cash.

- 25 March: Purchased another 25 units of Product ZUM-88 for US$130,000 on credit terms.

- 3 April: Paid US$100,000 to creditors.

- 8 May: Sold 5 units of Product ZUM-88 for US$45,000 and received cash.

- 20 August: Paid US$20,000 to creditors.

- 2 September: Sold 13 units of Product ZUM-88 for US$158,000 on credit terms.

- 30 October: Received US$79,000 from customers.

Exchange rates:

Date	US$ / S$
1 January	1.330
5 January	1.380
13 February	1.320
25 March	1.290
3 April	1.340
8 May	1.280
20 August	1.310
2 September	1.370
30 October	1.390
31 December	1.330

Clementi maintains a perpetual inventory system and the FIFO cost formula.

Assume the net realisable value of inventories is above the cost of inventories at the end of FY20x7. There was no inventory, US$ bank, trade receivables and trade payables balances at start of the financial year. Foreign currency monetary account balances are revalued at the end of the financial year. Ignore the effects of income tax arising from these transactions and events.

e-Exam Question No		Question 2 required:
5	**(a)**	Record the journal entries for Clementi from 1 January 20x7 to 31 December 20x7 in accordance with SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates* and SFRS(I) 1-2 *Inventories*. Show all necessary workings and round to nearest dollar. **(19 marks)**
6	**(b)**	Explain who are the users and what are the objectives of general-purpose financial statements. **(4 marks)** **(Total: 23 marks)**

Question 3 – (a), (b) and (c)

Eunos Pte Ltd (Eunos), a GST (Goods and Services Tax) registered business with a financial year-end of 30 June, enters into a contract with a corporate customer on 5 January 20x4 to supply and install 20 units of air conditioner as well as provide maintenance service for 50 units. A sales invoice was rendered to this corporate customer on the same day.

The total price of the contract is $50,000, and was paid equally over two monthly instalments (i.e. 5 February and 5 March 20x4). The standalone selling prices of each element of the contract are:

- Air conditioner = $2,200 per unit
- Installation = $500 per unit
- Maintenance service = $120 per unit

On 2 February 20x4, 12 units of air conditioner were delivered and installed by Eunos. The remaining units were delivered and installed on 20 March 20x4. A week later, i.e. 27 March 20x4, maintenance service was carried out for 10 units.

Eunos purchased a residential property on 10 April 20x4 for $650,000 in cash for the purpose of earning rental income. The related transaction costs, such as conveyance fees and stamp duty paid on the same date was $15,000.

It managed to rent out this property for $48,000 per year, which is payable each quarter in advance. The lease commenced on 1 May 20x4 and the first quarterly payment was made on this date. The sale, purchase and lease of residential property are exempt from GST.

The fair value of the residential property as of 30 June 20x4 is $720,000. Eunos has elected the fair value model for its investment property, and rental is recorded at the end of the financial year.

All values stated above are exclusive of 7% GST. GST returns are filed at the end of each calendar quarter, and any input/output tax is settled immediately. Ignore the effects of income tax arising from these transactions and events.

e-Exam Question No		Question 3 required:
7	**(a)**	Record the journal entries for Eunos Pte Ltd from 1 January 20x4 to 30 June 20x4 in accordance with SFRS(I) 15 *Revenue from Contracts with Customers* and SFRS(I) 1-40 *Investment Property*. Show all necessary workings. Round your answers to the nearest dollar. **(16 marks)**
8	**(b)**	Assume a $5,000 bonus will be payable to Eunos Pte Ltd by the corporate customer if maintenance service was carried out for 50 units within 12 months, i.e. by February 20x5. Describe how such a bonus payment should be accounted for in accordance with SFRS(I) 15 *Revenue from Contracts with Customers*. No computations or journal entries are required. **(3 marks)**
9	**(c)**	Accountants in business may face a conflict of interest. Identify which fundamental principle is likely to be threatened, give an example of a situation that might create a conflict of interest and how one can mitigate and/or eliminate such threat to comply with the code of professional conduct and ethics. **(4 marks)** **(Total: 23 marks)**

Question 4 – (a), (b) and (c)

On 1 January 20x5, AMK Pte Ltd (AMK) entered into a non-cancellable contract to rent a CNC machine to manufacture handphone cases for its customer, a mobile phone manufacturer. The terms of this contract provide for an initial payment of $20,000 and an annual payment of $50,000 on 31 December for four years. Title of asset is transferred to AMK at the end of the lease term.

The cost model is used to account for right-of-use assets, and AMK has decided to adopt the straight-line method to compute depreciation and the total estimated useful life is five years. AMK's incremental borrowing cost is 5% p.a..

Due to a significant slump in demand for mobile phones during 20x6, AMK decided that the total estimated useful life of the CNC machine would reduce to four years. As of 31 December 20x6, AMK estimated the value in use of the CNC machine to be $94,000. The fair value and cost of disposal as of the same date are $95,000 and $2,000 respectively.

On 4 March 20x7, a fire broke out at AMK's only factory and completely destroyed the CNC machine. The damage was so serious that AMK may have to cease operations. The machine was covered by insurance and AMK may be able to make a claim of $110,000. However, AMK may be liable to repair the damages caused by the fire to its neighbour's premise, depending on the outcome of the police investigation on the cause of the fire. The financial statements for the financial year ended 31 December 20x6 was authorised for issue on 19 April 20x7.

e-Exam Question No	Question 4 required:
10	**(a)** Record the journal entries for AMK Pte Ltd relating to the CNC machine from 1 January 20x5 to 31 December 20x6 in accordance with SFRS(I) 16 *Leases*, SFRS(I) 1-16 *Property, Plant and Equipment* and SFRS(I) 1-36 *Impairment of Assets*. Ignore the effects of income tax arising from these transactions and events. Show all necessary workings. Round your answers to the nearest dollar. **(12 marks)**
11	**(b)** Describe how the events and/or transactions subsequent to 1 January 20x7 should be dealt with by AMK Pte Ltd, particularly in accordance with SFRS(I) 1-10 *Events after the Reporting Period* and SFRS(I) 1-37 *Provisions, Contingent Liabilities and Contingent Assets*. No computations or journal entries are required. **(6 marks)**
12	**(c)** List any THREE enhancing qualitative characteristics and discuss any ONE fundamental qualitative characteristic of financial statements in accordance with the Conceptual Framework for Financial Reporting. **(5 marks)** **(Total: 23 marks)**

END OF PAPER

Appendix A - Common verbs used by the Examiners

Verb	Description
Calculate / Compute	Do the number crunching and derive the correct answer. Make sure that you write down your workings and crosscheck your numbers.
Describe	**Describe** requires you to provide the characteristics and features of an item or situation. For instance, "**Describe** the audit procedures to verify …" requires you to **state** the specific audit procedure/s that you would use 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. For instance, "**Discuss** why numerical valuation is essential when buying or selling a small business".
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.
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 …". Remember, a journal is only complete if it shows the date of the entry, the correct accounts, the correct amounts, and has a description (narration) – easy marks are often thrown away through carelessness.
Record	**Record** is similar to **prepare** in that you may need to perform a calculation and show the specific components in an appropriate format.

Appendix B - Future Value and Present Value Tables

Present value interest factor of $1 per period at i% for n periods (T), PVIF(i,n).										
T	**1%**	**2%**	**3%**	**4%**	**5%**	**6%**	**7%**	**8%**	**9%**	**10%**
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424

Future value interest factor of $1 per period at i% for n periods (T), FVIF(i,n).										
T	**1%**	**2%**	**3%**	**4%**	**5%**	**6%**	**7%**	**8%**	**9%**	**10%**
1	1.010	1.020	1.030	1.040	1.050	1.060	1.070	1.080	1.090	1.100
2	1.020	1.040	1.061	1.082	1.103	1.124	1.145	1.166	1.188	1.210
3	1.030	1.061	1.093	1.125	1.158	1.191	1.225	1.260	1.295	1.331
4	1.041	1.082	1.126	1.170	1.216	1.262	1.311	1.360	1.412	1.464
5	1.051	1.104	1.159	1.217	1.276	1.338	1.403	1.469	1.539	1.611
6	1.062	1.126	1.194	1.265	1.340	1.419	1.501	1.587	1.677	1.772
7	1.072	1.149	1.230	1.316	1.407	1.504	1.606	1.714	1.828	1.949
8	1.083	1.172	1.267	1.369	1.477	1.594	1.718	1.851	1.993	2.144
9	1.094	1.195	1.305	1.423	1.551	1.689	1.838	1.999	2.172	2.358

Present value interest factor of an (ordinary) annuity of $1 per period (T) at i% for n periods (T), PVIFA(i,n).										
T	**1%**	**2%**	**3%**	**4%**	**5%**	**6%**	**7%**	**8%**	**9%**	**10%**
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759

Future value interest factor of an ordinary annuity of $1 per period (T) at i% for n periods (T), FVIFA(i,n).										
T	**1%**	**2%**	**3%**	**4%**	**5%**	**6%**	**7%**	**8%**	**9%**	**10%**
1	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
2	2.010	2.020	2.030	2.040	2.050	2.060	2.070	2.080	2.090	2.100
3	3.030	3.060	3.091	3.122	3.153	3.184	3.215	3.246	3.278	3.310
4	4.060	4.122	4.184	4.246	4.310	4.375	4.440	4.506	4.573	4.641
5	5.101	5.204	5.309	5.416	5.526	5.637	5.751	5.867	5.985	6.105
6	6.152	6.308	6.468	6.633	6.802	6.975	7.153	7.336	7.523	7.716
7	7.214	7.434	7.662	7.898	8.142	8.394	8.654	8.923	9.200	9.487
8	8.286	8.583	8.892	9.214	9.549	9.897	10.260	10.637	11.028	11.436
9	9.369	9.755	10.159	10.583	11.027	11.491	11.978	12.488	13.021	13.579