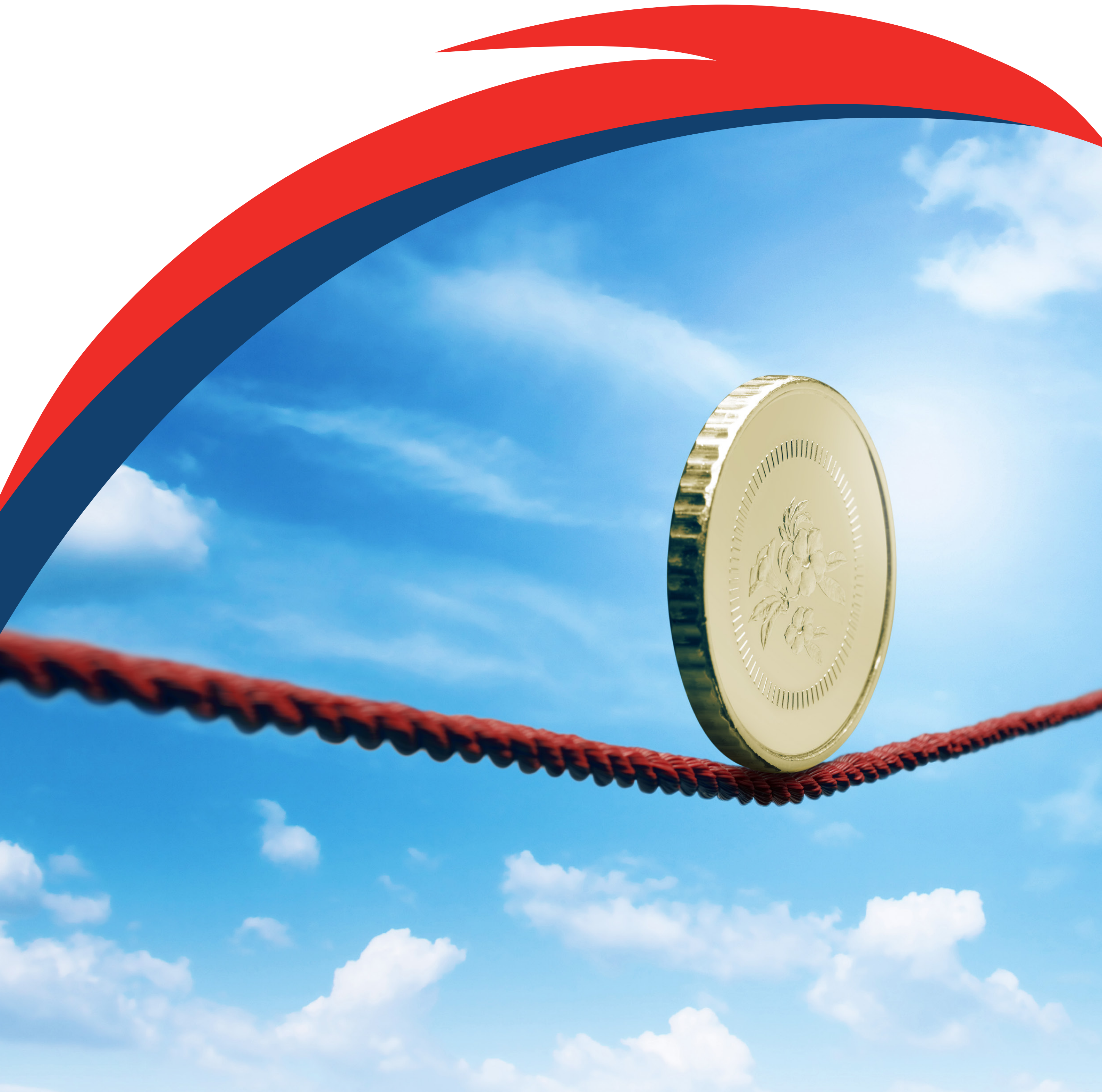
INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

Global Mindset, Asian Insights

Illustrative Financial Statements 2015



Preface

About this publication:

This publication includes the illustrative financial statements ("IFS") of the annual financial statements of a Singapore-incorporated company, ABC Pte. Ltd., prepared in accordance with:

- Singapore Financial Reporting Standards
- The Singapore Companies Act, Chapter 50

The illustrative financial statements serve to provide illustration of annual financial statements of companies whose activities include manufacturing and trading. The disclosures contained in these IFS are made based on a hypothetical entity and certain assumptions have been made about the applicability of the disclosures required by Singapore Financial Reporting Standards.

The IFS are designed to capture a wide set of circumstances and transactions, and in enhancing the relevance of the IFS, all minimum disclosure requirements of FRS are complied with, generally without considering materiality thresholds established in FRS 1. Also, since these IFS are prepared based on a fictitious entity, assessing materiality is not possible in some circumstances. This set of IFS is a helpful enabler for entities preparing financial statements under FRS, but its illustrative nature must be appreciated.

The names of people and entities included as illustrations are fictitious. Any resemblance to any person or business is purely coincidental.

This 2015 edition includes illustration of disclosures which are effective for annual periods beginning on or after 1 January 2015.

To provide users with insight of changes in this publication as compared to the 2014 edition, we have side-lined the new illustrations, disclosure requirements and other editorial changes in this manner.

Important notices:

- This publication is intended as an illustrative guide rather than a definitive statement.
- While the IFS contain most of the usual disclosures typically found in the financial statements of entities whose activities include manufacturing and trading, the disclosures and commentaries in this publication are not meant to be exhaustive. Reference should be made to the relevant standards and regulations for specific disclosure requirements.
- This publication should not be relied upon as a substitute for seeking professional advice concerning the appropriate accounting treatment for specific individual situations or ensuring compliance with the Singapore Financial Reporting Standards and/or Singapore Companies Act, Chapter 50.

Abbreviations:

The following abbreviations are used in this publication:

ACRA	Accounting and Corporate Regulatory Authority
CA	Singapore Companies Act, Chapter 50
FRS	Singapore Financial Reporting Standards
	– INT FRS Interpretations of FRSs
	– FRS AG FRS Application Guidance
	– FRS IG FRS Implementation Guidance
ISCA	Institute of Singapore Chartered Accountants
SSA	Singapore Standards on Auditing

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DIRECTORS' STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

CA 201: 16

The directors are pleased to present their statement to the members together with the audited financial statements of ABC Pte. Ltd. (the "Company") for the financial year ended 31 December 2015.

1. Opinion of the directors

In the opinion of the directors,

CA Sch 12 (1) (a)

(a) the financial statements of the Company are drawn up so as to give a true and fair view of the financial position of the Company as at 31 December 2015 and the financial performance, changes in equity and cash flows of the Company for the year then ended; and

CA Sch 12 (1) (b)

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

2. Directors

CA Sch 12 (7)

The directors of the Company in office at the date of this statement are:

Irene Lee
Nelson Ma
Steven Lee (Appointed on 31 March 2015)

3. Arrangements to enable directors to acquire shares or debentures

CA Sch 12 (8) (a)
CA Sch 12 (8) (b)

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

4. Directors' interests in shares or debentures

CA Sch 12 (9)

According to the register of directors' shareholdings kept by the Company under section 164 of the Singapore Companies Act, Chapter 50 (the "Act"), the directors of the Company who held office at the end of the financial year had no interests in the shares or debentures of the Company and its related corporations except as stated below:

	Direct interest		Deemed interest	
Name of directors	**At the beginning of financial year or date of appointment if later**	**At the end of financial year**	**At the beginning of financial year or date of appointment if later**	**At the end of financial year**
Ordinary shares of the Company				
Irene Lee	1,500	1,500	-	-
Nelson Ma	1,500	1,500	1,500	1,500
Steven Lee	1,000	1,000	-	-

5. Share options

CA Sch 12 (2)

There were no share options granted during the financial year to subscribe for unissued shares of the Company.

There were no shares issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company.

There were no unissued shares of the Company under option at the end of the financial year.

6. Auditor

PA LLP has expressed its willingness to accept re-appointment as auditor.

CA 201: 16

On behalf of the Board of Directors

Irene Lee	**Nelson Ma**
Director	Director
30 May 2016	

Help tips

(i) New disclosure requirements

The Companies (Amendment) Bill was passed by Parliament in October 2014. On 15 April 2015, ACRA announced that the legislative changes to the Companies Act will be effected in two phases. The first phase was implemented on 1 July 2015. The second phase will commence in the first quarter of 2016.

Included in the first phase is the removal of the directors' report and introduction of the new directors' statement containing the information set out in the new Twelfth Schedule.

The new section 201(16) of the Companies Act which came into operation on 1 July 2015 states that the financial statements laid before a company at its general meeting shall be accompanied, before the auditor's report on the financial statements under this Part, by a statement signed on behalf of the directors by two directors of the company containing the information set out in the Twelfth Schedule. The adoption of these legislative changes is illustrated in the director's statement above.

(ii) Addressee(s) of the Directors' Statement

The phrase 'to the member' is suggested if the Company has one shareholder.

Help tips (Continued)

(iii) Opinion of the directors

If the Company is in a net current liabilities or net liabilities position, the following disclosure is suggested:

At the date of this statement, having regard to the (eg: financial support from the immediate holding company), there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

(iv) Signing of the Directors' Statement

The phrase '*On behalf of the Board of Directors*' is not necessary if the Company has two directors or fewer.

If the Company has two directors, the phrase '*The Board of Directors*' is suggested.

If the Company has one director only, the phrase '*The Sole Director*' is suggested.

(v) Dating of the Directors' Statement

CA 201: 9(a)
CA 201: 16

The directors' statement shall be made out and sent to all persons entitled to receive notice of general meetings of the Company not less than 14 days before the date of the Annual General Meeting ("AGM"). The directors' statement shall be made in accordance with a resolution of the directors specifying the day on which it was made out and be signed on behalf of the directors by 2 directors of the Company containing the information set out in the Twelfth Schedule.

CA 201: 1(b)

AGMs shall be held within six months after the end of the financial years for non-listed companies.

(vi) Directors' interests in shares or debentures

CA Sch 12 (9)
S164: 15(a), 16

A director's interests include his personal holdings, the beneficial interests of his immediate family and any deemed interest as defined under Section 7 of the Companies Act. Immediate family includes the spouse and infant children* (under 21 years), including step-children and adopted children, provided none of them are directors. Interests in rights or share options, if any, are also required to be disclosed.

**Under No. 84 of the Companies (Amendment) Act 2014, Section 164(15) will revise 'infant children' to 'children of less than 18 years'. The effective date has yet to be determined.*

If a director resigns after the end of the financial year/period but before the date of the directors' statement, his interest as at the reporting date is still required to be disclosed.

If none of the directors has any interests in shares or debentures in the Company or any related corporations, the following disclosure is suggested:

None of the directors of the Company holding office at the reporting date had any interest in the shares or debentures of the Company or any related corporations either at the beginning or end of financial year.

CA 7: 4A
CA 164: 3

A director is deemed to have interests in the related companies if the director is entitled to exercise or control the exercise of not less than 20% of the voting shares in the related companies.

Help tips (Continued)

(vi) Directors' interests in shares or debentures (Continued)

Where the Company is a wholly owned subsidiary of another company (the "holding company"), the Company may be deemed to have complied with section 164 of the Singapore Companies Act in relation to a director who is also a director of that other company if the particulars required by this section to be shown in the register of the Company are shown in the register of the holding company. The following should be disclosed:

"The directors, Mr/Ms _________ and Mr/Ms__________ are also directors of (holding company), incorporated in the Republic of Singapore, which owns all the shares of the Company. Their interests in shares are recorded in the register of directors' shareholdings kept under section 164 of the Singapore Companies Act by the holding company and are therefore not disclosed in this directors' statement."

(vii) Share options

CA Sch 12(2) Particulars of share options issued by the Company to be disclosed include:

(i) Where any option has been granted by a Company, other than a parent company for which consolidated financial statements are required, during the period covered by the financial statements to take up unissued shares of a Company —

(a) the number and class of shares in respect of which the option has been granted;
(b) the date of expiration of the option;
(c) the basis upon which the option may be exercised; and
(d) whether the person to whom the option has been granted has any right to participate by virtue of the option in any share issue of any other company.

CA Sch 12(3) (ii) Where any of the above particulars have been disclosed in the previous directors' statement, reference may be made to that statement.

CA Sch 12(5) (iii) The particulars of shares issued during the period to which the statement relates by virtue of the exercise of options to take up unissued shares of the Company, whether granted before or during that period.

CA Sch 12(6) (iv) The number and class of unissued shares of the Company under option as at the end of the period to which the statement relates, the price, or method of fixing the price, of issue of those shares, the date of expiration of the option and the rights, if any, of the persons to whom the options have been granted to participate by virtue of the options in any share issue of any other company.

(viii) Resignation of directors

There are no requirements to give details of director(s) who resigned during the financial year and up to the date of the directors' statement.

CA Sch 12(9) If a director resigns after the end of the financial year but before the date of the directors' statement, his interest at the end of the financial year should be disclosed.

SSA 700: 20-22
CA 207: 1

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ABC PTE. LTD.

Report on the Financial Statements

SSA 700: 23

We have audited the accompanying financial statements of ABC Pte. Ltd. (the "Company"), which comprise the statement of financial position of the Company as at 31 December 2015, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information.

SSA 700: 25

Management's Responsibility for the Financial Statements

SSA 700: 26

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

SSA 700: 28

Auditor's Responsibility

SSA 700: 29, 30

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

SSA 700: 31

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

SSA 700: 33

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

SSA 700: 34
CA 207: 2(a)

Opinion

SSA 700: 35

In our opinion, the financial statements of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Company as at 31 December 2015, and of the financial performance, changes in equity and cash flows of the Company for the year ended on that date.

SSA 700: 38

Report on Other Legal and Regulatory Requirements

CA 207: 2(b)

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

SSA 700: 40

PA LLP
Public Accountants and
Chartered Accountants

SSA 700: 42
SSA 700: 41

Singapore
30 May 2016

Help tips

(i) New disclosure requirements

Please refer to help tip no. 1 of the directors' statement. ISCA amended its pronouncements relating to auditor's report to reflect the terminology changes resulting from the legislative changes made to the Companies Act in October 2014. These terminology changes are reflected in this illustrative independent auditor's report.

The terminology used in the auditor's report has been revised as follows:

Previous Terminology	Revised Terminology
Profit and loss accounts and balance sheets	Financial statements
State of affairs and results	Financial position and performance

<u>Changes effective for periods ending on or after 15 December 2016</u>

ISCA issued the enhanced Auditor Reporting Standards that deals with the form and content of the auditor's report to be issued for audits of financial statements for periods ending on or after 15 December 2016 conducted in accordance with SSA.

Please refer to Illustration 3 of SSA 700 (Revised) Forming an Opinion and Reporting on Financial Statements for an illustration of an enhanced independent auditor's report on financial statements of a Singapore incorporated company other than a listed entity prepared in accordance with a fair presentation framework.

(ii) Titles of financial statements

FRS1: 10

Entities are allowed to use titles for the statements other than those used in FRS 1. In the application of this standard, the Company has chosen to use the same terms as the FRS.

Help tips (Continued)

(iii) First year of appointment as auditor

SSA 710: 17

If there is a change of auditor, include an "Other Matter" paragraph after the "Opinion" sub-heading (SSA 710: 17) which could be disclosed as follows:

Other Matter

The financial statements of the Company for the financial year ended ***(date)*** *were audited by another firm of auditors who expressed an unmodified/modified opinion* on those statements on* ***(insert the date of auditor's report issued by another firm)****.*

*The nature and impact of the modified opinion shall be disclosed.

ABC PTE. LTD.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

(Illustrating the analysis of expenses by function)

		Note	2015 $'000	2014 $'000
FRS 1: 99				
FRS 1: 82(a), 103	Revenue	4	55,325	47,416
FRS 1: 103	Cost of sales		(30,589)	(26,668)
FRS 1: 103	**Gross profit**		24,736	20,748
FRS 1: 103	Other income	5	455	482
	Selling and distribution expenses		(8,556)	(6,776)
	Administrative and other expenses		(7,708)	(6,616)
FRS 1: 82(b)	Finance costs	6	(55)	(72)
FRS 1: 85	**Profit before tax**	7	8,872	7,766
FRS 1: 82(d)	Income tax expense	8	(2,358)	(1,527)
FRS 1: 85	**Profit for the year, representing total comprehensive income for the year**		6,514	6,239

Help tips

(i) Presentation

FRS 1: 99

In the application of FRS 1 *Presentation of Financial Statements,* the Company has elected to present a single statement of profit or loss and other comprehensive income (FRS 1: 99) and for which the expenses are analysed by function.

As an alternative, the Company can choose to present the statement by nature. (Appendix A).

(ii) Other comprehensive income

FRS 1 (IN 13b)

It is assumed in this set of illustrative financial statements that there is no other comprehensive income. Where applicable, the Company is required to present, in accordance to FRS 1, items of other comprehensive income, grouped into those that will not be reclassified subsequently to profit or loss and those that will be reclassified subsequently to profit or loss when specific conditions are met, net of related tax effects or before related tax effects with one amount shown for the aggregate amount of income tax relating to those items.

An illustrative example of 'Other comprehensive income' is shown in Appendix A.

The accompanying notes form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

		Note	2015 $'000	2014 $'000
FRS 1: 54, 77	**ASSETS**			
FRS 1: 60, 61	**Non-current assets**			
FRS 1: 54(a)	Property, plant and equipment	9	8,530	9,094
FRS 1: 54(h)	Loan to the holding company	10	1,055	1,055
			9,585	10,149
FRS 1: 60, 61	**Current assets**			
FRS 1: 54(g)	Inventories	11	6,985	4,124
FRS 1: 55	Prepayments		755	873
FRS 1: 54(h)	Loan to the holding company	10	-	1,020
FRS 1: 54(h)	Trade receivables	12	9,198	7,766
FRS 1: 54(h)	Other receivables	13	1,118	784
FRS 1: 54(i)	Cash and cash equivalents	14	6,515	3,073
			24,571	17,640
	Total assets		34,156	27,789
	EQUITY AND LIABILITIES			
	Equity			
FRS 1: 54(r)	Share capital	15	1,000	1,000
FRS 1: 54(r)	Retained earnings		23,596	17,082
FRS 1: 54(r)	**Equity attributable to owners of the Company**		24,596	18,082
FRS 1: 60, 61	**Non-current liabilities**			
FRS 1: 54(o)	Deferred tax liabilities	16	1,300	1,190
FRS 1: 60, 61	**Current liabilities**			
FRS 1: 54(n)	Income tax payable		1,336	789
FRS 1: 54(l)	Provisions	17	824	679
FRS 1: 54(k)	Trade payables	18	5,302	4,073
FRS 1: 54(k)	Other payables	19	798	500
FRS 1: 54(m)	Bank borrowings	20	-	2,476
			8,260	8,517
	Total equity and liabilities		34,156	27,789

The accompanying notes form an integral part of these financial statements.

ABC PTE. LTD.

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

		Share capital $'000	Retained earnings $'000	Total $'000
	At 1 January 2014	1,000	10,843	11,843
FRS1: 106(d)	Profit for the year, representing total comprehensive income for the year	-	6,239	6,239
	At 31 December 2014	1,000	17,082	18,082
	At 1 January 2015	1,000	17,082	18,082
	Profit for the year, representing total comprehensive income for the year	-	6,514	6,514
	At 31 December 2015	1,000	23,596	24,596

Help tips

(i) Presentation of the third statement of financial position

FRS 1: 40(A)

In the application of FRS 1: 40A, the entity is required to present a third statement of financial position as at the beginning of the earliest comparative period following a retrospective application of an accounting policy, a retrospective restatement of items in its financial statements, or a reclassification of items in the financial statements if the restatement application or/and reclassification has a material effect on the information in the statement of financial position at the beginning of the earliest comparative period.

The entity need not present the related notes to the opening statement of financial position as at the beginning of the earliest comparative period other than that required under FRS 1: 41- 44 and FRS 8 (FRS 1: 40C).

(ii) Dividends

FRS 1: 107

An entity shall present, either in the statement of changes in equity or in the notes, the amount of dividends recognised as distributions to owners during the period, and the related amount of dividend per share.

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY (Continued)
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

Help tips (Continued)

(i) Changes in accounting policy

FRS 1: 106(b)
FRS 8: 22

If a new accounting policy is adopted during the financial year, a sample disclosure of the effects of retrospective application on the opening balance of each affected component of equity for the earliest comparative period presented (i.e. 1 January 2014) on the statement of changes in equity is as follows:

	Share capital	Retained earnings	Total
	$'000	$'000	$'000
At 1 January 2014			
-as previously reported			
-effects of adopting [ ] (Note X)			
At 1 January 2014 (as restated)			
Profit for the year, representing total comprehensive income for the year			
At 31 December 2014			
At 1 January 2015			
-as previously reported			
-effects of adopting [ ] (Note X)			
At 1 January 2015 (as restated)			
Profit for the year, representing total comprehensive income for the year			
At 31 December 2015			

(ii) Presentation of each component of equity in the Statement of change in equity ("SOCE")

FRS 1: 106(d)

(a) FRS 1 requires an entity to show in the SOCE, for each component of equity, reconciliation between the carrying amount at the beginning and end of the period.

FRS 1: 108

(b) Components of equity include, for example, each class of contributed equity, the accumulated balance of each class of other comprehensive income and retained earnings.

The accompanying notes form an integral part of these financial statements.

ABC PTE. LTD.

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

Reference		2015 $'000	2014 $'000
FRS 7: 1 FRS 7: 10			
	Cash flows from operating activities		
	Profit before tax	8,872	7,766
FRS 7: 20(b), (c)	Adjustments for:		
	Depreciation of property, plant and equipment	1,588	1,527
	Loss/(gain) on disposal of property, plant and equipment	280	(263)
	Reversal of write-down of inventories	(150)	-
	Allowance for impairment /(reversal of allowance for impairment) on trade receivables	113	(88)
	Warranty provision charged to profit or loss	295	262
FRS 7: 31-34	Interest income	(35)	(28)
	Interest expense	55	72
		11,018	9,248
FRS 7: 20(a)	Change in working capital:		
	Inventories	(2,711)	(4,021)
	Trade receivables	(1,545)	1,989
	Other receivables and prepayments	(216)	(698)
	Trade payables	1,229	(2,009)
	Other payables and provisions	148	(780)
	Cash generated from operations	7,923	3,729
FRS 7: 35	Income tax paid	(1,701)	(908)
FRS 7: 10	**Net cash generated from operating activities**	6,222	2,821
FRS 7: 21	**Cash flows from investing activities**		
FRS 7: 16(a)	Acquisition of property, plant and equipment	(1,524)	(2,146)
FRS 7: 16(b)	Proceeds from disposal of property, plant and equipment	220	400
FRS 7: 16(f)	Repayment of loan from the holding company	1,020	-
FRS 7: 31	Interest received	35	28
FRS 7: 10	**Net cash used in investing activities**	(249)	(1,718)
FRS 7: 21	**Cash flows from financing activities**		
FRS 7: 31	Interest paid	(55)	(72)
FRS 7: 17(d)	Repayment of bank borrowings	(2,476)	(800)
FRS 7: 10	**Net cash used in financing activities**	(2,531)	(872)
FRS 7: 45	**Net increase in cash and cash equivalents**	3,442	231
FRS 7: 45	Cash and cash equivalents at 1 January	3,073	2,842
FRS 7: 45	**Cash and cash equivalents at 31 December**	6,515	3,073

The accompanying notes form an integral part of these financial statements.

Help tips

(i) Direct/Indirect method

FRS 7: 18

FRS 7 allows entities to report cash flows from operating activities using either the direct method or the indirect method.

The Company presents its cash flows using the indirect method.

(ii) Investing and financing transactions that do not require the use of cash or cash equivalents

FRS 7: 43

Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from the statement of cash flows. Such transactions shall be disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities. An example will be property, plant and equipment acquired under finance leases.

(iii) Issuance of ordinary shares

FRS 7: 17(a)

Proceeds from issuance of ordinary shares are classified as cash flows from financing activities.

(iv) Dividends and interests

FRS 7: 31-34

Cash flows from interest received and paid and dividends received shall each be disclosed separately, and classified consistently from period to period. These may be classified as financing (e.g. for long term loans) and investing (e.g. for bonds or fixed deposits) cash flows or alternatively as operating (e.g. for overdrafts) cash flows, depending on the nature of the transaction.

The interest amounts to be adjusted against profit after tax are the amounts charged or credited to the profit or loss. The amounts to be shown under financing or investing cash flows shall be strictly cash paid or received during the period. Differences will be reflected in the changes in working capital (for example, accrued interest) or as additions to qualifying assets if interest has been capitalised in the cost of these assets.

(v) Unrealised foreign currency gains and losses

If the effect of unrealised foreign currency gains/(losses) are material, appropriate disclosure shall be made.

FRS 7 paragraph 20 states that under the indirect method, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of:
(a) changes during the period in inventories and operating receivables and payables;
(b) non-cash items such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses, and undistributed profits of associates; and
(c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the statement of comprehensive income and the changes during the period in inventories and operating receivables and payables.

For the purpose of this illustrative, the effect of such adjustment is not material and therefore, not disclosed separately.

These notes form an integral part and should be read in conjunction with the accompanying financial statements.

1. General

FRS 1: 138(a)

ABC Pte. Ltd. (the "Company") is incorporated and domiciled in Singapore with its registered office and principal place of business at No. 4 Tuas View Crescent, #04-04 SME Centre, Singapore 123456.

FRS 1: 138(b)

The principal activities of the Company are those of trading in machinery and machinery parts.

FRS 24: 13
FRS 1: 138(c)

The immediate and ultimate holding company is XYZ Asia Pte. Ltd., which is incorporated in Singapore.

Help Tips

(i) Change in name

FRS 1: 51 (a)

If the Company changes its name during the financial year, the change shall be disclosed. An illustrative example can be found below:

"With effect from (effective date), the name of the Company was changed from (former name) to (current name)."

FRS 1: 138(c)

(ii) Disclosure of name of ultimate controlling party

FRS 24: 13

The Company is required to disclose the name of the Company's parent and, if different, the ultimate controlling party. The ultimate controlling party can be either an entity or a person.

FRS 1: 117

2. Summary of significant accounting policies

2.1 Basis of preparation

FRS 1: 117(a)
FRS 1: 16

The financial statements of the Company have been drawn up in accordance with Singapore Financial Reporting Standards ("FRS"). The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

FRS 1: 51(e)

The financial statements are presented in Singapore Dollars ($), which is the Company's functional currency. All financial information presented in Singapore Dollars has been rounded to the nearest thousand ($'000), unless otherwise indicated.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

Help tips

(i) Disclosure of accounting policies

FRS 1: 119

In deciding whether a particular accounting policy shall be disclosed, management considers whether the disclosure will assist users in understanding how transactions, other events and conditions are reflected in the reported financial performance and financial position. Accounting policies shall be disclosed for all material components. The accounting policies illustrated in this publication must be tailored if they are adopted by other reporting entities to suit the particular circumstances and needs of readers of those financial statements.

Disclosure of accounting policies is especially useful to users when those policies are selected from alternatives allowed in FRSs. Examples include measurement bases used for classes of property, plant and equipment (FRS 16), intangibles (FRS 38) and investment properties (FRS 40).

(ii) Materiality

FRS 1: 121
FRS 1: 7

An accounting policy may also be significant because of the nature of the entity's operations, even if amounts shown for current and prior periods are not material. Omission or misstatement of items are material if they can, individually or collectively, influence the economic decisions that users made on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement, judged in the surrounding circumstances. The size or nature of the item, or a combination of both could be the determining factor.

(iii) Choice of accounting policy

FRS 1: 18

An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material.

(iv) Going concern

FRS 1: 25

When preparing financial statements, the management is required to make an assessment of the entity's ability to continue as a going concern.

When the management has made judgement in the process of assessing the entity's going concern assumption, and the effect of such judgement has significant effect on the amounts recognised in the financial statements, such judgement shall be disclosed.

In addition, during their assessment, should management become aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

Help tips

Going concern (Continued)

An illustrative disclosure example where the ability of the entity to continue as a going concern is dependent on the holding company's continuing financial support is included as follows:

The financial statements of the Company have been prepared on a going concern basis notwithstanding the net capital deficiency of approximately $_________ and $________ as at 31 December 2015 and 31 December 2014 respectively. These factors indicate the existence of a material uncertainty which may cast significant doubt over the Company's ability to continue as a going concern.

The ability of the Company to continue as a going concern is dependent on the undertaking of its holding company, XXX Limited, to provide continuing financial support to enable the Company to meet its liabilities as and when they fall due.

If the Company were unable to continue in operational existence for the foreseeable future, the Company may be unable to discharge its liabilities in the normal course of business and adjustments may have to be made to reflect the situation that the assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the statement of financial position. In addition, the Company may have to reclassify non-current assets and liabilities as current assets and liabilities. No such adjustments have been made to these financial statements.

2.2 Adoption of new and revised standards

FRS 8: 28, 29

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Company has adopted all the new and revised standards which are relevant to the Company and are effective for annual financial periods beginning on or after 1 January 2015. The adoption of these standards did not have any material effect on the financial statements.

Help tips

When initial application of a FRS has an effect on the current period or any prior period, would have such an effect that it is impracticable to determine the amount of the adjustment, or might have an effect on future periods, an entity shall follow the disclosure requirement guidance on FRS 8: 28 and 29.

2.3 Standards issued but not yet effective

FRS 8: 30, 31

A number of new standards, amendments to standards and interpretations are issued but effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. The Company does not plan to early adopt these standards.

2. Summary of significant accounting policies (Continued)

2.3 Standards issued but not yet effective (Continued)

The following standards that have been issued but not yet effective are as follows:

Description	**Effective for annual periods beginning on or after**
Amendments to FRS 27: Equity Method in Separate Financial Statements	1 Jan 2016
Amendments to FRS 16 & FRS 38: Clarification of Acceptable Methods of Depreciation and Amortisation	1 Jan 2016
Amendments to FRS 111: Accounting for Acquisitions of Interests in Joint Operations	1 Jan 2016
Amendments to FRS 110 & FRS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	date to be determined
Improvements to FRSs (November 2014)	
Amendments to FRS 105 Non-current Assets Held for Sale and Discontinued Operations	1 Jan 2016
Amendments to FRS 107 Financial Instruments: Disclosures	1 Jan 2016
Amendments to FRS 19 Employee Benefits	1 Jan 2016
FRS 115 Revenue from Contracts with Customers	1 Jan 2018
FRS 109 Financial Instruments	1 Jan 2018
Amendments to FRS 1: Disclosure Initiative	1 Jan 2016
Amendments to FRS 110, FRS 112 & FRS 28: Investment Entities: Applying the Consolidation Exception	1 Jan 2016

The directors expect that the adoption of the standards above will have no material impact on the financial statements in the period of initial application.

Help tips

Above is a list of standards that are effective for annual periods beginning after 1 January 2015 that are relevant to the Company.

For an updated and complete list of standards issued but not yet effective, please refer to http://www.asc.gov.sg/CEPafter1Jan2015

When new standards, amendments to standards and interpretations will have no, or no material effect on the financial statements, in our view, it is not necessary to list them as such a disclosure would not be material.

2. Summary of significant accounting policies (Continued)

2.3 Standards issued but not yet effective (Continued)

Help tips (Continued)

Illustrative disclosure on the adoption of FRS 115, the effect of which is significant to the financial statements

FRS 115 Revenue from Contracts with Customers

FRS 115 establishes a five-step model that will apply to revenue arising from contracts with customers. Under FRS 115, revenue is recognised at an amount that reflects the consideration which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in FRS 115 provide a more structured approach to measuring and recognising revenue when the promised goods and services are transferred to the customer i.e. when performance obligations are satisfied.

Key issues for the Company include identifying performance obligations, accounting for contract modifications, applying the constraint to variable consideration, evaluating significant financing components, measuring progress toward satisfaction of a performance obligation, recognising contract cost assets and addressing disclosure requirements.

Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Company is currently assessing the impact of FRS 115 and plans to adopt the new standard on the required effective date.

2. Summary of significant accounting policies (Continued)

2.4 Foreign currency transactions and balances

FRS 21: 21
FRS 21: 23

Transactions in foreign currencies are measured in the functional currency of the Company and are recorded on initial recognition in the functional currency at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

FRS 21: 28

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting period are recognised in profit or loss.

Help tips

FRS 21: 54

Change in the functional currency

1. Where there is a change in the functional currency of the reporting entity, that fact and reason for the change in the functional currency shall be disclosed.

FRS 21: 53

Presentation currency different from functional currency

2. When the financial statements are presented in a currency different from the Company's functional currency, the following are required to be disclosed:

   (i) the Company's functional currency; and

   (ii) the reason for using a different currency as its presentation currency.

2.5 Property, plant and equipment

FRS 16: 15,16
FRS 16: 30

All items of property, plant and equipment are initially recorded at cost. Subsequent to recognition, property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment includes its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the property, plant and equipment.

FRS 16: 73(b), (c)

Depreciation is calculated using the straight-line method to allocate depreciable amounts over their estimated useful lives. The estimated useful lives are as follows:

	Useful lives
Leasehold land	Over the lease period ranging from 80 to 99 years
Leasehold buildings	25 to 40 years
Leasehold improvements	3 to 7 years
Tooling and equipment	3 to 5 years
Office equipment	3 years
Motor vehicles	5 years

2. Summary of significant accounting policies (Continued)

2.5 Property, plant and equipment (Continued)

FRS 36: 9

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

FRS 16: 51, 61

The useful lives, residual values and depreciation method are reviewed at the end of each reporting period, and adjusted prospectively, if appropriate.

FRS 16: 67, 68
FRS 16: 71

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on de-recognition of the asset is included in profit or loss in the year the asset is derecognised.

Help tips

(i) Components of cost

FRS 16: 16(a), (b)

The cost of an item of PPE initially recognised includes its purchase price and any costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

FRS 16: 16(c)

Cost may include the projected cost of dismantlement, removal or restoration if such obligation is incurred as a consequence of either acquiring the asset or using the asset for purposes other than to produce inventories. Cost may also include borrowing costs and any other far value gains or losses on qualifying cash flow hedges of PPE that are transferred from the hedging reserve.

Where such costs are capitalised. the following additional disclosure is suggested:

The cost of an item of property, plant and equipment initially recognised includes its purchase price, projected costs of dismantlement, removal or restoration, gains or losses on qualifying cash flow hedges and any other costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(ii) Computer software license and development costs

FRS 38: 4

Computer software license and development costs shall be accounted for as intangible assets under FRS 38 when they are not an integral part to the related hardware. Computer software that is an integral part to the related hardware shall be accounted for as a component of the part of the related hardware using FRS 16.

(iii) Spare parts and servicing equipment

FRS 16: 8

Items such as spare parts, stand-by equipment and servicing equipment are recognised as property, plant and equipment only if they meet the definition of property, plant and equipment, i.e. tangible items that:

a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

b) are expected to be used during more than one period.

Otherwise, they are classified as inventory.

2. Summary of significant accounting policies (Continued)

2.5 Property, plant and equipment (Continued)

Help tips (Continued)

(iv) Component approach to depreciation

FRS 16: 7, 13, 14
FRS 16: 43

An entity allocates the amount initially recognised in respect of an item of PPE to its significant parts and depreciates separately each significant part if those parts have different useful lives. These parts of some items of PPE may require replacement at regular intervals. The entity capitalises the cost of the replacements when (i) it is probable that future economic benefits associated with the item will flow to the entity; and (ii) the cost of the item can be reliably measured. The carrying amount of the replaced parts is derecognised.

If the amount is material, an illustrative disclosure is as follows:

The (specific class of plant and equipment) are subject to overhauls at regular intervals. The inherent components of the initial overhaul are determined based on the estimated costs of the next overhaul and are separately depreciated over a period of (years) in order to reflect the estimated intervals between two overhauls. The costs of the overhauls subsequently incurred are capitalised as additions and the carrying amounts of the replaced components are written off to profit or loss.

2. Summary of significant accounting policies (Continued)

2.6 Impairment of non-financial assets

FRS 36: 9

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount.

FRS 36: 18, 22
FRS 36: 30, 31
FRS 36: 59

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

FRS 36: 60

Impairment losses are recognised in profit or loss.

FRS 36: 114
FSR 36: 117
FRS 36: 119

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss.

2.7 Financial instruments

a) Financial assets

Initial recognition and measurement

FRS 39: 14
FRS 39: 9

Financial assets are recognised when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. The Company determines the classification of its financial assets at initial recognition.

FRS 39: 43

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

FRS 39: 45

Loans and receivables

FRS 39: 9, 46(a), 56

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

2. Summary of significant accounting policies (Continued)

2.7 Financial instruments (Continued)

a) Financial assets (Continued)

Subsequent measurement (Continued)

Loans and receivables (Continued)

Loans and receivables comprise loan to the holding company, trade and other receivables, and cash and cash equivalents.

Cash and cash equivalents comprise cash at banks and on hand.

De-recognition

FRS 39: 17, 26

A financial asset is derecognised when the contractual right to receive cash flows from the asset has expired. On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that has been recognised in other comprehensive income is recognised in profit or loss.

b) Financial liabilities

Initial recognition and measurement

FRS 39: 14

Financial liabilities are recognised when, and only when, the Company becomes a party to the contractual provisions of the financial instrument. The Company determines the classification of its financial liabilities at initial recognition.

FRS 39: 43

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

FRS 39: 47, 56

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Such financial liabilities comprise trade and other payables, and bank borrowings.

De-recognition

FRS 39: 39, 40
FRS 39: 41

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2. Summary of significant accounting policies (Continued)

2.7 Financial instruments (Continued)

Help tips

FRS 39: 9

Where applicable, consider including the following illustrative accounting policies:

(i) Available-for-sale financial assets

Available-for-sale financial assets are those, which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is de-recognised.

Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

(ii) Financial asset at fair value through profit or loss (FVTPL)

A financial asset is classified as FVTPL if the financial asset is either held for trading or is designated as such upon initial recognition.

A financial asset is classified as held-for-trading if it has been acquired principally for the purpose of selling in the short term; or if it is part of an identified portfolio of financial instruments with a recent actual pattern of short-term profit-taking and which is managed by the Company; or if it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee contract.

A financial asset which is not classified as held-for-trading may be designated as FVTPL upon initial recognition if the financial asset is managed as part of a group of financial instruments, with its performance being evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Gains or losses arising from changes in the fair value are recognised in profit or loss. The net gain or loss incorporates any dividend or interest earned on the financial asset.

(iii) Held-to-maturity investments

Bonds with fixed or determinable payments and fixed maturity dates where the Company has a positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

2. Summary of significant accounting policies (Continued)

2.7 Financial instruments (Continued)

Help tips (Continued)

(iv) Financial liabilities at fair value through profit or loss

FRS 39: 9

Financial liabilities at fair value through profit or loss include financial liabilities held for trading. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value. Any gains or losses arising from changed in fair value of the financial liabilities are recognised in profit or loss.

(v) Offsetting of financial instruments

FRS 32: 42

A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an entity:

(a) currently has a legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2. Summary of significant accounting policies (Continued)

2.8 Impairment of financial assets

FRS 39: 58

The Company assesses at each reporting date whether there is any objective evidence that a financial asset is impaired.

Financial assets carried at amortised cost

FRS 39: 64

For financial assets carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

FRS 39: 63

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

FRS 39: 63
FRS 107: AG. B5(d)

When the asset becomes uncollectible, the carrying amount of impaired financial asset is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying amount of the financial asset.

FRS 39: 59
FRS 107: AG. B5(f)

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

FRS 39: 65

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in profit or loss.

2. Summary of significant accounting policies (Continued)

2.8 Impairment of financial assets (Continued)

Help tips

Where applicable, consider including the following illustrative accounting policies:

Impairment of financial assets, other than those carried at amortised cost

FRS 39: 69, 70

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

FRS 39: 67, 68

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

2.9 Cash and cash equivalents

FRS 7: 6, 8, 46

Cash and cash equivalents comprise cash at banks and on hand and are subject to an insignificant risk of changes in value. These also include bank overdrafts that form an integral part of the Company's cash management.

2. Summary of significant accounting policies (Continued)

2.10 Inventories

FRS 2: 9, 10, 25
FRS 2: 36(c)

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in first-out method and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

FRS 2: 6

When necessary, allowance in provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

Help tips

Components of costs (for manufacturing company)

FRS 2: 10

(i) Costs include all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

FRS 2: 11

(ii) Costs of purchase comprises the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

2.11 Provisions

General

FRS 37: 14

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

2. Summary of significant accounting policies (Continued)

2.11 Provisions (Continued)

General (Continued)

FRS 37: 59
FRS 37: 45, 47
FRS 37: 60

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Warranty provisions

FRS 37: 60

Provisions for warranty-related costs are recognised when the product is sold or service provided. Initial recognition is based on historical experience. The initial estimate of warranty-related costs is revised annually.

2.12 Government grants

FRS 20: 39(a)
FRS 20: 7
FRS 20: 23, 24
FRS 20: 26

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the statement of financial position and is amortised to profit or loss over the expected useful life of the relevant asset by equal annual installments.

Where loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favourable interest is regarded as additional government grant.

2.13 Borrowing costs

FRS 23: 8

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Help tips

Current/ Non-current classification of borrowings

FRS 1: 69, 72, 74

Borrowings are presented as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the reporting date. When an entity breaches an undertaking under a long-term loan agreement on or before the reporting date with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the reporting date, the entity does not have an unconditional right to defer its settlement for at least twelve months after that date.

Where the entity expects, and has the discretion, to re-finance or roll over an obligation for at least 12 months after the reporting period under an existing loan facility with the same lender on the same or similar terms, the liability is classified as non-current. This is consistent with the proposals under the exposure draft ED/2012/1 Annual Improvements to IFRSs 2010-2012 that has been issued by IASB, which is proposed to be effective for annual periods beginning on or after 1 January 2014.

2. Summary of significant accounting policies (Continued)

2.14 Employee benefits

a) Defined contribution plans

FRS 19: 8, 51

The Company makes contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Contributions to defined contribution pension schemes are recognised as an expense in the period in which the related service is performed.

b) Short-term employee benefits

FRS 19:11

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

2.15 Revenue recognition

FRS 18: 9, 10, 14, 20
FRS 18: 20, 29, 35(a)

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

a) Sale of goods

FRS 18: 14

Revenue from sale of goods is recognised upon the transfer of significant risks and rewards of ownership of the goods to the customer. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

b) Rendering of services and handling fees

FRS 18: 20

Revenue from rendering of services and handling fees is recognised when the services have been performed and rendered.

c) Interest income

FRS 18: 30(a)

Interest income is recognised on a time proportion basis using the effective interest method.

2. Summary of significant accounting policies (Continued)

2.16 Taxes

a) Current income tax

FRS 12: 46

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

FRS 12: 58, 61(A)

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

b) Deferred tax

FRS 12: 5

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

FRS 12: 24 ,34, 44

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

FRS 12: 24

Deferred tax asset is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

FRS 12: 56

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

FRS 12: 47

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

FRS 12: 71

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2. Summary of significant accounting policies (Continued)

2.16 Taxes (Continued)

c) Sales tax

FRS 18: 8

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Help tips

Where applicable, consider including the following illustrative accounting policies:

FRS 37: 10

Contingencies

A contingent liability is:

a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company; or

b) a present obligation that arises from past events but is not recognised because:

(i) It is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

(ii) The amount of the obligation cannot be measured with sufficient reliability.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

2. Summary of significant accounting policies (Continued)

2.17 Operating leases as lessee

FRS 17: 33

Finance leases which transfer to the Company substantially all the risks and rewards incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Any initial direct costs are also added to the amount capitalised. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Contingent rents, if any, are charged as expenses in the periods in which they are incurred.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

2.18 Share capital

FRS 32: 37

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

3. Significant accounting judgments and estimates

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the end of each reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

FRS 1: 122

3.1 Judgments made in applying accounting policies

Determination of functional currency

FRS 21: 9

In determining the functional currency of the Company, judgment is used by the Company to determine the currency of the primary economic environment in which the Company operates. Consideration factors include the currency that mainly influences sales prices of goods and services and the currency of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services.

3. Significant accounting judgments and estimates (Continued)

3.1 Judgments made in applying accounting policies (Continued)

Help tips

Where no significant judgments and estimates are made, consider including the following illustrative disclosure example:

The management is of the opinion that there are no significant judgments made in applying accounting estimates and policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

3.2 Key sources of estimation uncertainty

FRS 1: 125

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period are discussed below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

a) Useful lives of property, plant and equipment

The useful life of an item of property, plant and equipment is estimated at the time the asset is acquired and is based on historical experience with similar assets and takes into account anticipated technological or other changes. If changes occur more rapidly than anticipated or the asset experiences unexpected level of wear and tear, the useful life will be adjusted accordingly. The carrying amount of the Company's property, plant and equipment as at 31 December 2015 was $8,530,000 (2014: $9,094,000).

b) Inventory valuation method

Inventory write-down is made based on the current market conditions, historical experience and selling goods of similar nature. It could change significantly as a result of changes in market conditions. A review is made periodically on inventories for excess inventories, obsolescence and declines in net realisable value and an allowance is recorded against the inventory balances for any such declines. The realisable value represents the best estimate of the recoverable amount and is based on the most reliable evidence available and inherently involves estimates regarding the future expected realisable value. The carrying amount of the Company's inventories as at 31 December 2015 was $6,985,000 (2014: $4,124,000).

3. Significant accounting judgments and estimates (Continued)

3.2 Key sources of estimation uncertainty (Continued)

c) Provision for warranty

The provision for warranty is based on estimates from known and expected warranty work to be performed after sale of goods. The actual warranty expense incurred could differ from the provision made. The carrying amount of the Company's provision for warranty as at 31 December 2015 was $824,000 (2014: $679,000).

Further details of provision for warranty are discussed in Note 17 to the financial statements.

d) Impairment of loans and receivables

The impairment of trade and other receivables and loan to the holding company is based on the ageing analysis and management's continuous evaluation of the recoverability of the outstanding receivables. In assessing the ultimate realisation of these receivables, management considers, among other factors, the creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The carrying amounts of the Company's trade and other receivables, and loan to the holding company as at 31 December 2015 were $10,316,000 (2014: $8,550,000) and $1,055,000 (2014: $2,075,000) respectively.

Help tips

In this illustration, it is assumed that these are the significant judgments/estimates made in applying the accounting policies, in deriving the financial statements of the Company.

If an entity has other judgments/estimates, which are deemed to be relevant and have significant effect on the financial statements, it should be disclosed accordingly.

4. Revenue

		2015 $'000	2014 $'000
FRS 18: 35(b)(i)	Sale of goods	42,458	37,933
FRS 18: 35(b)(ii)	Service fee income	12,867	9,483
		55,325	47,416

Help tips

Revenue and other income

FRS 18: 35(b)

Where applicable, the amount of revenue and other income recognised for each of the following categories should be disclosed separately, either on the face of the statement of profit or loss and other comprehensive income or in the notes to the financial statements:

(i) sale of goods
(ii) rendering of services
(iii) interest
(iv) royalty
(v) dividends
(vi) rental income from investment properties (FRS 40: 75(f)(ii))

5. Other income

		2015 $'000	2014 $'000
FRS 18: 35(b)(iii)	Interest income from loan to the holding company	35	28
FRS 1: 97	Handling fees	410	446
	Government grants	10	8
		455	482

6. Finance costs

		2015 $'000	2014 $'000
FRS 107: 20(b)	Interest expense on bank borrowings	55	72

7. Profit before tax

Profit before tax has been arrived at after charging/(crediting):

		2015 $'000	2014 $'000
	Employee benefits expense:		
FRS 1: 104	Salaries, bonuses and other costs	8,473	7,650
FRS 1: 104	Contributions to Central Provident Fund	955	769
FRS 1: 98(a)	Impairment loss/(reversal of impairment loss) on trade receivables (Note 12)	113	(88)
FRS 1: 98(c)	Loss/(gain) on disposal of property, plant and equipment	280	(263)
	Net foreign exchange loss/(gain)	98	(169)
FRS 17: 35(c)	Operating lease expense	650	600
FRS 1: 98(a)	Reversal of write-down of inventories (Note 11)	(150)	-
FRS 1: 97	Advertising expense	560	432
FRS 1: 97	Commission expense	889	740

8. Income tax expense

The major components of income tax expense recognised in profit or loss for the years ended 31 December 2015 and 2014 were:

		2015 $'000	2014 $'000
	Current income tax		
FRS 12: 80(a)	- Current year	1,989	1,635
FRS 12: 80(b)	- Under/(over)provision in respect of prior years	259	(308)
		2,248	1,327
	Deferred income tax		
FRS 12: 80(c), (f)	- Origination and reversal of temporary differences (Note 16)	110	200
	Income tax expense recognised in profit or loss	2,358	1,527

8. Income tax expense (Continued)

Relationship between tax expense and accounting profit

FRS 12: 81

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable corporate tax rate for the financial years ended 31 December 2015 and 2014 were as follows:

	2015 $'000	2014 $'000
Profit before tax	8,872	7,766
Income tax using the statutory tax rate of 17% (2014: 17%)	1,508	1,320
Tax effects of:		
Non-deductible expenses	946	929
Income not subject to tax	(335)	(384)
Income tax rebate	(20)	(30)
Under/(over)provision in respect of prior years	259	(308)
Income tax expense recognised in profit or loss	2,358	1,527

The Singapore Government has announced that for Years of Assessment ("YA") 2016 and 2017, all companies will receive a 30% Corporate Income Tax ("CIT") Rebate that is subject to a cap of $20,000 per YA (YA 2013 to YA 2015 : cap of $30,000 per YA).

Help tips

Deferred income taxes

Unrecognised tax losses and capital allowances

FRS 12: 81(e), 82

If an entity has unrecognised tax losses and capital allowances, a suggested disclosure is as follows:

'Deferred income tax assets are recognised for tax losses and capital allowances carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Company has unrecognised tax losses of $[ ] (2014: $[ ]) and capital allowances of $[ ] (2014: $[ ]) at the reporting date which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements. The tax losses have no expiry date. The capital allowances will expire between [year) and [year).

9. Property, plant and equipment

		Leasehold land	Leasehold buildings	Leasehold improvements	Tooling and equipment	Office equipment	Motor vehicles	Total
FRS 1: 78(a)		$'000	$'000	$'000	$'000	$'000	$'000	$'000
	Cost							
FRS 16: 73(d)	At 1 January 2014	7,000	3,810	1,600	1,020	350	200	13,980
FRS 16: 73(e)(i)	Additions	-	490	200	400	556	500	2,146
FRS 16: 73(e)(ii)	Disposals	-	-	-	-	(287)	(200)	(487)
FRS 16: 73(d)	At 31 December 2014	7,000	4,300	1,800	1,420	619	500	15,639
FRS 16: 73(d)	At 1 January 2015	7,000	4,300	1,800	1,420	619	500	15,639
FRS 16: 73(e)(i)	Additions	-	-	588	816	120	-	1,524
FRS 16: 73(e)(ii)	Disposals	-	-	-	(620)	(428)	-	(1,048)
FRS 16: 73(d)	At 31 December 2015	7,000	4,300	2,388	1,616	311	500	16,115
	Accumulated depreciation							
FRS 16: 73(d)	At 1 January 2014	1,520	1,173	1,383	680	412	200	5,368
FRS 16: 73(e)(vii)	Depreciation	280	379	290	450	78	50	1,527
FRS 16: 73(e)(ii)	Disposals	-	-	-	-	(150)	(200)	(350)
FRS 16: 73(d)	At 31 December 2014	1,800	1,552	1,673	1,130	340	50	6,545
FRS 16: 73(d)	At 1 January 2015	1,800	1,552	1,673	1,130	340	50	6,545
FRS 16: 73(e)(vii)	Depreciation	298	423	300	359	108	100	1,588
FRS 16: 73(e)(ii)	Disposals	-	-	-	(120)	(428)	-	(548)
FRS 16: 73(d)	At 31 December 2015	2,098	1,975	1,973	1,369	20	150	7,585
	Carrying amount							
	At 31 December 2014	5,200	2,748	127	290	279	450	9,094
	At 31 December 2015	4,902	2,325	415	247	291	350	8,530

9. Property, plant and equipment (Continued)

FRS 16: 74

During the previous financial year, leasehold land and buildings with carrying amount of approximately $7,948,000 were mortgaged to secure bank borrowings (Note 20). The mortgage was discharged during the financial year.

Help tips

Property, plant and equipment in the course of construction

FRS 16: 74(b)

Where applicable, the amount of expenditure on PPE in the course of construction should be disclosed.

Finance lease – lessee

FRS 17: 31(a)

Where an entity has finance leases as a lessee, the additions acquired via finance leases and carrying amount at the reporting date should be disclosed for each class of assets acquired by finance lease.

Classification of borrowing costs capitalised into cost of qualifying assets

FRS 23: 26

The classification of payments of interest that are capitalised shall be classified in a manner consistent with the classification of the underlying asset to which those payments were capitalised. For example, payments of interest that are capitalised as part of cost of PPE should be classified as part of an entity's investing activities; payments of interest that are capitalised as part of the cost if inventories should be classified as part of an entity's operating activities.

10. Loan to the holding company

FRS 24: 18(b), 19(d)
FRS 107: 31

The loan to the holding company is unsecured and bears interest at 3-month SIBOR + 1.5% (2014: 3-month SIBOR + 1.5%) per annum. The effective interest rate was 2% (2014: 2%) per annum. The first repayment of $1,020,000 was on 30 November 2015 and the remainder is repayable on 30 November 2017.

FRS 1: 78(c)

11. Inventories

		2015 $'000	2014 $'000
	Statement of financial position:		
FRS 2: 37	Machinery and machinery parts	6,985	4,124
	Statement of profit or loss:		
FRS 2: 36(d)	Inventories recognised as an expense in cost of sales	28,142	24,268
	Inclusive of:		
FRS 2: 36(f)	- Reversal of write-down of inventories	(150)	-

FRS 2: 36(g)

The reversal of write-down of inventories was due to the inventories being sold above the carrying amounts in 2015.

Help tips

FRS 2: 36(b)
FRS 2: 37

The entity is required to disclose the amount of any reversal of any write-down that is recognised as a reduction in the amount of inventories recognised as expense and the circumstances of inventories recognised as expense and the circumstances or events leading to such reversals.

Inventories classifications (for manufacturing company)

Disclosure is required of the total carrying amount of inventories and further sub-classifications as appropriate to the entity's operations. Common classifications of inventories are trading merchandise, production supplies, materials, work-in-progress and finished goods. The inventories of a service provider may simply be described as work-in-progress.

12. Trade receivables

		2015 $'000	2014 $'000
FRS 1: 77, 78(b)	Trade receivables:		
	- Third parties	6,884	5,918
FRS 24: 18(b)	- Holding company	1,034	1,855
FRS 24: 18(b)	- Other related companies	1,900	500
		9,818	8,273
	Less: Allowance for impairment	(620)	(507)
	Total trade receivables	9,198	7,766

FRS 107: 7, 31

Trade receivables are non-interest bearing and are generally on 30 to 60 days' terms.

There is no other class of financial assets that is past due and/or impaired except for trade receivables.

Receivables that are past due but not impaired

FRS 107: 37

The Company had trade receivables amounting to $1,307,000 (2014: $1,273,000) that were past due at the reporting date but not impaired. These receivables were unsecured and the analysis of their aging at the reporting date was as follows:

	2015 $'000	2014 $'000
Trade receivables past due but not impaired:		
Lesser than 30 days	889	788
30 - 60 days	341	222
61- 90 days	54	130
More than 90 days	23	133
	1,307	1,273

12. Trade receivables (Continued)

Receivables that were impaired

The Company's trade receivables that were impaired at the reporting date and the movement of the allowance accounts used to record the impairment were as follows:

		2015	2014
		$'000	$'000
FRS 107: 37(b), IG29	Trade receivables - nominal amounts	966	694
	Less: Allowance for impairment	(620)	(507)
		346	187
FRS 107: 16	Movement in allowance accounts:		
	At 1 January	507	595
	Allowance made	113	-
	Reversal of allowance	-	(88)
	At 31 December	620	507

FRS 107: 37(b)

Trade receivables that were determined to be impaired at the reporting date relate to debtors that were in significant financial difficulties and had defaulted on payments. These receivables were not secured by any collateral or credit enhancements.

13. Other receivables

		2015	2014
		$'000	$'000
FRS 1: 78(b)	Other receivables	693	218
FRS 1: 78(b)	Security deposits	425	566
		1,118	784

14. Cash and cash equivalents

		2015	2014
		$'000	$'000
FRS 107: 7, 31	Cash at banks	6,514	3,072
FRS 107: 7, 31	Cash on hand	1	1
		6,515	3,073

14. Cash and cash equivalents (Continued)

Help tips

1. Cash not available for use

FRS 7: 48, 49

There may be circumstances in which cash and bank balances held by an Company are not available for use by the Company. When this occurs, the amount and the nature of the restrictions placed upon their use must be disclosed:-

Included in cash and cash equivalents are bank deposits amounting to $_______ (2014: $________) which are not freely remissible for use by the Company because of currency exchange restrictions.

2. Bank deposits pledged

FRS 7: 6

Bank deposits pledged as collateral shall not be included as cash and cash equivalents in the statement of cash flows.

3. Cash equivalents for the purpose of presenting statement of cash flows

FRS 7: 7-9

Under FRS 7, cash equivalents are defined as short-term highly liquid investments that are readily convertible to a known amount of cash which are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent when it has a short maturity of, say, three months or less from the date of acquisition.

15. Share capital

	2015		2014	
	No of shares '000	$'000	No of shares '000	$'000
Issued and fully paid ordinary shares				
FRS 1: 79(a)(ii)(iv) At 1 January and 31 December	1,000	1,000	1,000	1,000

FRS 1: 79(v)
FRS 1: 79(a)(iii)

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

16. Deferred tax liabilities

FRS 12: 81(g)

Movements in deferred tax assets/(liabilities) during the financial year were as follows:

	At 1 January 2014	Recognised in profit or loss (Note 8)	At 31 December 2014/ 1 January 2015	Recognised in profit or loss (Note 8)	At 31 December 2015
	$'000	$'000	$'000	$'000	$'000
Deferred tax assets/(liabilities)					
Differences in depreciation for tax purposes	(1,040)	(170)	(1,210)	(150)	(1,360)
Others	50	(30)	20	40	60
	(990)	(200)	(1,190)	(110)	(1,300)

17. Provisions

FRS 1: 77, 78(d)
FRS 37: 85

A provision is recognised for expected warranty claims on certain specialised electronic components sold during the last two years, based on past experience of the level of returns. Assumptions used to calculate the provision were based on current information available and to the best knowledge and experience of the management.

Movements in provision for warranty were as follows:

		2015	2014
		$'000	$'000
FRS 37: 84(a)	At 1 January	679	578
FRS 37: 84(b)	Provision charged to profit or loss	295	262
FRS 37: 84(c)	Utilisation of provision	(150)	(161)
FRS 37: 84(a)	At 31 December	824	679

18. Trade payables

		2015	2014
		$'000	$'000
FRS 1: 77	Trade payables to:		
	- Third parties	3,248	2,689
FRS 24: 18, 19(d)	- Related companies	2,054	1,384
	Total trade payables	5,302	4,073

FRS 107: 31
FRS 24: 18

These amounts are non-interest bearing. Trade payables are normally settled on 60 days' terms.

19. Other payables

		2015	2014
		$'000	$'000
FRS 1: 77	Other payables	320	337
	Accrued expenses	478	163
	Total other payables	798	500

FRS 107: 31

Other payables have an average term of 3 months.

20. Bank borrowings

FRS 107: 31

The bank borrowings were fully repaid during the financial year. The weighted average effective interest rate is 2.90% (2014: 2.86%) per annum.

FRS 107: 14

The bank borrowings were secured by a mortgage over leasehold land and buildings and were denominated in Singapore Dollar. The mortgage was discharged during the financial year.

20. Bank borrowings (Continued)

Help tips

Default and breaches of covenants on borrowings

FRS 107 requires additional disclosures in the event of defaults and breaches on borrowings.

Illustrative disclosure

Some of the Company's loan agreements (classified as non-current during the year) are subject to covenant clauses, whereby the Company is required to meet certain key financial ratios. The Company did not fulfil the debt/equity ratio as required in the contract for a bank facility of $_________, of which the Company has currently drawn an amount of $__________.

Due to this breach of the covenant clause, the bank is contractually entitled to request for immediate repayment of the outstanding loan amount of $____________. The outstanding balance is presented as a current liability as at 31 December 2015.

The bank had not requested early repayment of the loan as of the date when these financial statements were approved by the Board of Directors. Management is in the process of renegotiating the terms of the loan arrangement with the bank and expects that a revised loan agreement will be in place in the second quarter of 2016.

In cases where the breaches on borrowings are rectified after the financial year end but before the financial statements are approved for issue, such disclosure would still need to be disclosed in the financial statements.

21. Significant related party transactions

Sale and purchase of goods and services

FRS 24: 18, 21

In addition to the related party information disclosed elsewhere in the financial statements, the following transactions with related parties took place at terms agreed between the parties during the financial year:

	2015 $'000	2014 $'000
Sales to the holding company	8,997	9,584
Sales to related companies	9,732	7,319
Purchases from related companies	7,350	6,190
Interest income on loan to the holding company	35	28

21. Significant related parties transactions (Continued)

Compensation of key management personnel

		2015	2014
		$'000	$'000
FRS 24: 17(a)	Wages and salaries	683	520
	Employer's contribution to Central Provident Fund	82	52
	Other benefits	54	36
		819	608

Help tips

A related party is defined as follows:

FRS 24: 9

a) A person or a close member of that person's family is related to the Company if that person:
   (i) Has control or joint control over the Company;
   (ii) Has significant influence over the Company; or
   (iii) Is a member of the key management personnel of the Company or of parent of the Company.

b) An entity is related to the Company if any of the following conditions applies:
   (i) The entity and the Company are members of the same Company (which means that each parent, subsidiary and fellow subsidiary is related to the others);
   (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Company of which the other entity is a member);
   (iii) Both entities are joint ventures of the same third party;
   (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
   (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;
   (vi) The entity is controlled or jointly controlled by a person identified in (a);
   (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Key management personnel is defined as follows:

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company.

21. **Significant related parties transactions (Continued)**

Help tips

Related party transactions

Materiality and nature of transactions

It is particularly important to consider the nature of related party transactions. For example, services may be provided free of charge to a related party and a conclusion on whether the services provided are material can only be made by considering the nature of the transactions. Examples of expenses arising from the provision of free services include management fees or key management compensation. If such an item is deemed material, the provision of these free services should also be disclosed.

FRS 24: 21

Examples of related party transactions

The following are examples of transactions that are disclosed if they are with a related party:

(a) purchases or sales of goods (finished or unfinished);
(b) purchases or sales of property and other assets;
(c) rendering or receiving of services;
(d) leases:
(e) transfers of research and development;
(f) transfers under licence agreements;
(g) transfers under finance arrangements (including loans and equity contributions in cash or in kind);
(h) provision of guarantees or collateral;
(i) commitments to do something if a particular event occurs or does not occur in the future, including executory contracts (recognised and unrecognised); and
(i) settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

FRS 24: 11

Definition of related party

The following are not necessarily related parties:

(a) two entities simply because they have a director or other member of key management personnel in common;
(b) two venturers simply because they share joint control over a joint venture;
(c) providers of finance, trade unions, public utilities, government departments and agencies, simply by virtue of their normal dealings with an entity; and
(d) a customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence.

21. Significant related parties transactions (Continued)

Help tips (Continued)

Components of key management personnel compensation

FRS 24: 9

Compensation includes all employee benefits (as defined under FRS 19 and FRS102) in all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of the entity. Where key management personnel compensation include share-based payments, this should be disclosed as a separate line item where material.

Categories of disclosure

FRS 24: 19

Related party disclosures shall be made separately for each of the categories specified as follows:

(a) the parent;
(b) entities with joint control or significant influence over the entity;
(c) subsidiaries;
(d) associates.
(e) joint ventures in which the entity is a venturer,
(t) key management personnel of the entity or its parent; and
(g) other related parties.

For transactions with ‘other related parties’, the entity shall disclose the nature of the related party relationship.

22. Operating lease commitments

FRS 17: 35(d)

The Company leases warehouses under non-cancellable operating lease agreements. These leases have varying terms, escalation clauses and renewal rights.

FRS 17: 35(a)

The future minimum rental payable under non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, are as follows:

	2015 $’000	2014 $’000
Not later than one year	650	650
Later than one year but not later than five years	1,900	1,900
Later than five years	650	1,300
	3,200	3,850

FRS 17: 35(c)

Minimum lease payments recognised as an expense in profit or loss for the financial year ended 31 December 2015 amounted to $650,000 (2014: $600,000).

23. Financial risk management

FRS 107: 7, 31
FRS 107: 31-33

The Company's activities expose it to a variety of financial risks from its operation. The key financial risks include credit risk, liquidity risk and market risk (including foreign currency risk and interest rate risk).

The Board of Directors reviews and agrees policies and procedures for the management of these risks, which are executed by the management team. It is, and has been throughout the current and previous financial year, the Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

The following sections provide details regarding the Company's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

FRS 107: 33(c), 40(c)

There has been no change to the Company's exposure to these financial risks or the manner in which it manages and measures the risks.

Credit risk

FRS 107: 33, 36

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company performs ongoing credit evaluation of its counterparties' financial condition and generally do not require a collateral.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the financial year in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

<u>Excessive risk concentration</u>

FRS 107: 34(c)

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

<u>Exposure to credit risk</u>

FRS 107: 36(a)

The Company has no significant concentration of credit risk other than those balances with related companies comprising 32% (2014: 30%) of trade receivables. The Company has credit policies and procedures in place to minimise and mitigate its credit risk exposure.

<u>Financial assets that are neither past due nor impaired</u>

FRS 107: 36(c)

Trade and other receivables that are neither past due nor impaired are with creditworthy debtors with good payment record with the Company. Cash and cash equivalents are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

<u>Financial assets that are either past due or impaired</u>

FRS 107: 37

Information regarding financial assets that are either past due or impaired is disclosed in Note 12.

23. **Financial risk management (Continued)**

Help tips

FRS 107: 36(b)

Where the entity holds collateral as security and other credit enhancements, the entity shall provide a description of these instruments and their financial effect (e.g. quantification of the extent to which collateral and other credit enhancements mitigate credit risk) in respect of the amount that best represents the maximum exposure to credit risk for each class of such financial instruments.

FRS 107: 38

Where the entity obtains collaterals and other credit enhancements during the financial period and continue to hold them as at the reporting date, the entity shall disclose the following:

(i) nature and carrying amount of the assets; and
(ii) when the assets are not readily convertible into cash, its policies for disposing of such assets or for using them in its operations.

Illustrative disclosure example

During the financial year, the Company obtained assets by taking possession of collateral held as security. Those assets which are not yet derecognised as of 31 December 2015 are as follows:

Nature of assets	*Carrying amount*
	$'000
Inventories	
Property, plant and equipment	

Repossessed items are sold as practicable, with the proceeds used to reduce outstanding receivables. They are presented with "other current-assets" on the statement of financial position.

Liquidity risk

FRS 107: 33, 39

Liquidity risk refers to the risk that the Company will encounter difficulties in meeting its short-term obligations due to shortage of funds. The Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. It is managed by matching the payment and receipt cycles. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities. The Company's operations are financed mainly through equity. The directors are satisfied that funds are available to finance the operations of the Company.

23. Financial risk management (Continued)

Liquidity risk (Continued)

FRS 107: 34, 39

Analysis of financial instruments by remaining contractual maturities

The table below summarises the maturity profile of the Company's financial assets and liabilities at the reporting date based on contractual undiscounted repayment obligations.

	2015			
	Carrying amount	Contractual cash flows	One year or less	Two to five years
	$'000	$'000	$'000	$'000
Financial assets				
Loan to the holding company	1,055	1,097	-	1,097
Trade receivables	9,198	9,198	9,198	-
Other receivables	1,118	1,118	1,118	-
Cash and cash equivalents	6,515	6,515	6,515	-
Total undiscounted financial assets	17,886	17,928	16,831	1,097
Financial liabilities				
Trade payables	5,302	5,302	5,302	-
Other payables	798	798	798	-
Total undiscounted financial liabilities	6,100	6,100	6,100	-
Total net undiscounted financial assets	11,786	11,828	10,731	1,097

	2014			
	Carrying amount	Contractual cash flows	One year or less	Two to five years
	$'000	$'000	$'000	$'000
Financial assets				
Loan to the holding company	2,075	2,152	1,055	1,097
Trade receivables	7,766	7,766	7,766	-
Other receivables	784	784	784	-
Cash and cash equivalents	3,073	3,073	3,073	-
Total undiscounted financial assets	11,698	13,775	12,678	1,097
Financial liabilities				
Trade payables	4,073	4,073	4,073	-
Other payables	500	500	500	-
Bank borrowings	2,476	2,531	2,531	-
Total undiscounted financial liabilities	7,049	7,104	7,104	-
Total net undiscounted financial assets	4,649	6,671	5,574	1,097

Help tips

Where applicable, please include the following:

As at the end of the financial year, it was not probable that the counterparty to the financial guarantee contract will claim under the contract. Consequently, the amount included above is nil.

23. Financial risk management (Continued)

Market risk

Market risk is the risk that changes in market prices, such as interest rates and foreign exchange rates will affect the Company's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Interest rate risk

FRS 107: 33

Interest rate risk is the risk that the fair value or future cash flows of the Company's financial instruments will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk arises primarily from their loan to holding company, cash and cash equivalents and bank borrowings.

The Company does not expect any significant effect on the Company's profit or loss arising from the effects of reasonably possible changes to interest rates on interest bearing financial instruments at the end of the financial year.

FRS 107: 40

At the reporting date, if the interest rates had been 50 (2014: 50) basis points higher/lower with all other variables held constant, the Company's profit before tax would have been $35,000 (2014: $10,000) higher/lower, arising mainly as a result of higher/lower interest income/expenses on floating rate cash at bank and floating rate bank borrowings. The assumed movement in basis points for interest rate sensitivity analysis is based on the currently observable market environment.

Help tips

Where the entity holds various fixed rate and variable rate financial instruments, the entity may provide the following details.

Illustrative disclosure example

At the reporting date, the interest rate profile of the Company's interest-bearing financial instruments was as follows:

	2015	*2014*
	$'000	*$'000*
Fixed rate instruments		
Financial assets		
Financial liabilities		
Variable rate instruments		
Financial assets		
Financial liabilities		

The sensitivity analysis is based on changes in the interest rates of variable rate financial instruments.

FRS 107: 42

The Company shall include explanations for material variances between 2014 and 2015 or/and increase (decrease) in the profit or loss and equity. In addition, where management believes that the sensitivity analyses are unrepresentative, please disclose the fact and the reason(s).

23. Financial risk management (Continued)

Market risk (Continued)

(ii) Foreign currency risk

FRS 107: 33, 34

The Company's foreign exchange risk results mainly from cash flows from transactions denominated in foreign currencies. At present, the Company does not have any formal policy for hedging against currency risk. The Company ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates, where necessary, to address short term imbalances.

The Company has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the functional currency of the Company, primarily United States Dollar (USD) and Euro (EUR).

FRS 107: 40

The Company's currency exposures to the USD and EUR at the reporting date were as follows:

	2015		2014	
	USD	**EUR**	**USD**	**EUR**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets				
Trade receivables	2,998	760	1,976	987
Other receivables	456	-	90	-
Cash and cash equivalents	961	69	1,305	78
	4,415	829	3,371	1,065
Financial liabilities				
Trade payables	(2,679)	-	(2,133)	-
Other payables	(73)	-	(67)	-
	(2,752)	-	(2,200)	-
Currency exposures	1,663	829	1,171	1,065

FRS 107: 40

A 10% strengthening of Singapore dollar against the foreign currencies denominated balances as at the reporting date would decrease profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit or loss (after tax)	
	2015	**2014**
	$'000	**$'000**
United States Dollar	138	97
Euro	69	88

A 10% weakening of Singapore dollar against the above currencies would have had equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

FRS 107: 29, 30

24. Fair values

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Cash and cash equivalents, other receivables and other payables

The carrying amounts of these balances approximate their fair values due to the short-term nature of these balances.

Trade receivables and trade payables

The carrying amounts of these receivables and payables (including trade balances due from/to holding and related companies) approximate their fair values as they are subject to normal trade credit terms.

Loan to holding company and bank borrowings

The carrying amounts of loan to holding company and bank borrowings approximate their fair values as they are subject to interest rates close to market rate of interests for similar arrangements with financial institutions.

FRS 107: 6

25. Financial instruments by category

At the reporting date, the aggregate carrying amounts of loans and receivables and financial liabilities at amortised cost were as follows:

FRS 107: 8

	2015 $'000	2014 $'000
Loans and receivables		
Loan to the holding company (Note 10)	1,055	2,075
Trade receivables (Note 12)	9,198	7,766
Other receivables (Note 13)	1,118	784
Cash and cash equivalents (Note 14)	6,515	3,073
Total loans and receivables	17,886	13,698

FRS 107: 8

	2015 $'000	2014 $'000
Financial liabilities measured at amortised cost		
Trade payables (Note 18)	5,302	4,073
Other payables (Note 19)	798	500
Bank borrowings (Note 20)	-	2,476
Total financial liabilities measured at amortised cost	6,100	7,049

Help tips

FRS 32: AG12

Liabilities or assets that are not contractual (such as income taxes that are created as a result of statutory requirements imposed by governments) are not financial liabilities or financial assets.

26. Capital management

FRS 1: 134, 135

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and net current asset position in order to support its business and maximise shareholder value. The capital structure of the Company comprises issued share capital and retained earnings.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Company is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes during the financial year ended 31 December 2015 and 31 December 2014.

The Company is not subject to any externally imposed capital requirements. The Company's overall strategy remains unchanged from 2014.

Help tips

Other entities may use different and/or more complex methods to monitor capital. An entity decides, in the light of its circumstances, which measures are more suitable to monitor its capital and how much detail it should disclose.

Where applicable, for example, the Company monitors its capital using a gearing ratio, consider including the following illustrative disclosure:

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for its shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including trade and other payables as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as total equity, as shown in the statement of financial position, plus net debts.

No specific gearing ratio has been determined by the management with the overall objective to keep the ratio as low as possible and such policy has not been changed since the previous financial year.

The gearing ratios at 31 December 2015 and 2014 are as follows:

	2015 $'000	2014 $'000
Total trade and other payables and bank borrowings		
Less: Cash and cash equivalents		
Net debt		
Total equity		
Total capital		
Gearing ratio		

The Company is not subject to any externally imposed capital requirements. The Company's overall strategy remains unchanged from 2014.

27. Events occurring after the reporting period

FRS 10: 21

On 2 May 2016, the Company declared a final exempt (one-tier) dividend of $2 per share amounting to a total of $2,000,000 for the financial year ended 31 December 2015. These financial statements do not reflect this dividend, which will be accounted for in the financial year ending 31 December 2016.

Help tips

The entity is required to disclose the nature of all material non-adjusting events that took place subsequent to the financial year-end and an estimate of the corresponding financial effect, or in the event that the estimate cannot be made, a statement disclosing the fact.

28. Comparative information

Change in classification

FRS 1: 38

During 2015, the Company modified the classification of depreciation expense on certain office space to reflect more appropriately the way in which economic benefits are derived from its use. Comparative amounts in the statement of profit or loss and other comprehensive income were restated for consistency. As a result, $15,000 was reclassified from 'administrative and other expenses' to 'selling and distribution expenses'.

Since the amounts are reclassifications within operating activities in the statement of profit or loss and other comprehensive income, this reclassification did not have any effect on the statements of financial position and cash flows.

28. Comparative information (Continued)

Help tips

(i) Newly incorporated entities presenting their first set of accounts

The financial statements cover the period since incorporation on [ ] to [ ]. These being the first set of accounts, there are no comparative figures.

(ii) Entities with unequal comparative financial periods

The financial statements for 2014 cover from period [ ] to [ ].

FRS 1: 36

(iii) Change in the financial year end

If the entity has changed the end of its financial year and presents its financial statements for a period longer or shorter than one year, the entity shall disclose, in addition to the period covered by the financial statements:

(i) The reason for using a longer or shorter period; and
(ii) The fact that amounts presented in the financial statements are not entirely comparable.

Please refer to the following illustrative disclosure example:

Comparative figures

The current financial period comprises [ ] months from [date] to [date] as the Company changed its financial year end from [date] to [date].

The audited comparative figures presented in the financial statements are not entirely comparable as they cover a period from [date] to [date].

29. Authorisation of financial statements for issue

FRS 10: 17

The financial statements for the financial year ended 31 December 2015 were authorised for issue in accordance with a resolution of the Board of Directors of the Company on 30 May 2016.

ABC PTE. LTD.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015

(Illustrating the analysis of expenses by nature)

Appendix A

	Note	2015	2014
Revenue	4		
Other items of income			
Interest income			
Other income			
	5		
Other items of expense			
Changes in inventories of finished goods and work-in-progress			
Raw material and consumables used			
Employee benefits expense			
Depreciation and amortisation expense			
Impairment of property, plant and equipment			
Other expenses			
Finance costs	6		
Profit before tax	7		
Income tax expense	8		
PROFIT FOR THE YEAR			
Other comprehensive income:			
Items that will never be reclassified subsequently to profit or loss			
Gain on revaluation of property			
Total items that will never reclassified subsequently to profit or loss			
Items that may be reclassified subsequently to profit or loss			
Available-for-sale financial assets:			
Gains arising during the year			
Less: Reclassification adjustments for gains included in profit or loss			
Total items that may be reclassified to profit or loss			
Other comprehensive income for the year, net of tax			
TOTAL COMPREHENSIVE INCOME FOR THE YEAR			

Contributors:

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Should you have any comments and suggestions, please send them to qualityassurance@isca.org.sg.

Contributors:

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