Illustrative Financial Statements 2022

Preface

About this publication:

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

- Financial Reporting Standards in Singapore (FRSs)
- Singapore Companies Act 1967 (CA)

The IFS serve to provide an illustration of the annual financial statements of a company (i.e. not group) whose principal activities are those of 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 FRSs.

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 FRSs are complied with, generally without considering materiality. Also, since the 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 FRSs, 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 2022 edition includes illustrations of disclosures which are effective for annual periods beginning on or after 1 January 2022.

The COVID-19 pandemic shows considerable signs of easing as many countries have lifted travel bans, ended lockdowns and eased quarantine measures. Many governments have also announced curtailment of certain supportive measures to provide financial and non-financial assistance to affected entities. At the same time, COVID-19 may continue to affect companies and economies. Many entities are still dealing with lost revenue. In addition, natural disasters, the Ukraine-Russia conflict, and inflation are some of the major global issues driving global economic uncertainties today. These evolving uncertainties create a variety of issues and risks, including disrupted supply chains and increased market volatility.

Thus, this publication also provides guidance on the issues and disclosure requirements that should be considered when reporting on the financial effects of the various macroeconomic events and factors including COVID-19 and its subsequent developments in the financial statements. However, as the impact largely depends on the nature of an entity's business and the extent to which it has been affected, the potential impact has not been illustrated in the numbers reported. Entities should carefully evaluate and consider the impact of external events in their 2022 financial reporting and provide relevant entity-specific disclosures. Appendix D provides some illustrative disclosures relating to financial reporting in uncertain times for reference.

To draw the attention of users to changes in this publication as compared to the 2021 edition, we have side-lined the new illustrations, disclosure requirements and other editorial changes in this manner.

Preface (Continued)

Climate-related disclosures and financial reporting:

Stakeholders are increasingly interested in the impact of climate change on entities' business models, cash flows, financial position and financial performance. While FRSs do not explicitly refer to climate-related matters, entities must consider them in applying FRSs when the effect of those matters is material.

Entities that are considering climate-related disclosures in their financial statements can refer to our publications, *ISCA Climate Disclosure Guide: Taking First Steps Towards Climate-related Disclosures* (isca-climate-related-disclosure-guide-tcfd-(full-publication)(final1).pdf) (April 2022) and *Technical Bulletin 1: Addressing Climate-Related Risks in Financial Statements and Audits of such Financial Statements* (technical-bulletin-1-(clean).pdf (isca.org.sg)) (28 October 2022).

Also, the International Sustainability Standards Board has published a proposed climate-related disclosures standard. For more on this, illustrative guidance and related developments, please refer to https://www.ifrs.org/projects/work-plan/climate-related-disclosures/#published-documents.

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 trading, the disclosures and help tips 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 FRSs and/or CA.

Abbreviations:

The following abbreviations are used in this publication:

ACRA	Accounting and Corporate Regulatory Authority
CA	Singapore Companies Act 1967
FRS	Financial Reporting Standard in Singapore
	– INT FRS Interpretations of FRS
	– FRS IE FRS Illustrative Examples
	– FRS IG FRS Implementation Guidance
ISCA	Institute of Singapore Chartered Accountants
SSA	Singapore Standard on Auditing

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DIRECTORS' STATEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

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 2022.

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 2022 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 2022)

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 1967 (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	At the end of financial year	At the beginning of financial year or date of appointment	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.

CA Sch 12(5) There were no shares issued during the financial year by virtue of the exercise of options to take up unissued shares of the Company.

CA Sch 12(6) 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 2023	

Help tips

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

The phrase '*to the member*' should be used if the Company has only one shareholder.

(ii) Opinion of the directors

Where there are events or conditions that may cast significant doubt on the Company's ability to pay its debts as and when they fall due, the opinion of the directors should be amended accordingly with the appropriate disclosures.

(iii) Signing of the Directors' Statement

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

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

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

Help tips (Continued)

(iv) Dating of the Directors' Statement

CA 201: 16
CA 203: 1

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 two directors of the Company containing the information set out in the Twelfth Schedule of the CA.

CA 175: 1(b)
CA 175A

AGMs shall be held within six months after the end of the financial years for non-listed companies unless the company meets the requirements in section 175A of the CA.

(v) Directors' interests in shares or debentures

CA 164: 15(a), 16

A director or chief executive officer of the Company shall be deemed to hold or have an interest or a right in or over any shares or debentures if:

(i) a wife or husband of the director or chief executive officer (as the case may be) (not being herself or himself a director or chief executive officer thereof) holds or has an interest or a right in or over any shares or debentures; or

(ii) a child of less than 18 years of age of that director or chief executive officer (as the case may be) (not being himself or herself a director or chief executive officer) holds or has an interest in shares or debentures.

"Child" includes step-son, adopted son, step-daughter and adopted daughter.

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 as at the end of the financial year 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

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.

CA 164: 3

Where the Company is a wholly-owned subsidiary of another company (i.e. the holding company), the Company may be deemed to have complied with section 164 of the CA 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.

Help tips (Continued)

(vi) 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 a 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.

(vii) 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 interests at the end of the financial year should still be disclosed.

(viii) Revision of defective financial statements

Directors are able to revise the Company's financial statements in respect of any financial year of the Company. The revision is confined to those aspects in which the financial statements did not comply with the requirements of the CA (including compliance with FRSs) and any necessary consequential revisions. A new directors' statement and auditor's report must be attached to the revised financial statements. Appendix 4 of the guidance, *Revision of Defective Financial Statements, or Consolidated Financial Statements or Balance-Sheet Under Sections 202A and 202B of the Companies Act – Guidance for Companies*, issued by ACRA provides an illustrative new directors' statement.

SSA 700: 21, 22
CA 207: 1

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

SSA 700: 44, 45

Report on the Audit of the Financial Statements

SSA 700: 23

Opinion

SSA 700: 24

We have audited the financial statements of ABC Pte. Ltd. (the Company), which comprise the statement of financial position as at 31 December 2022, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

SSA 700: 25
CA 207: 2(a)

In our opinion, the accompanying financial statements are properly drawn up in accordance with the provisions of the Companies Act 1967 (the Act) and Financial Reporting Standards in Singapore (FRSs) so as to give a true and fair view of the financial position of the Company as at 31 December 2022 and of the financial performance, changes in equity and cash flows of the Company for the year ended on that date.

SSA 700: 28

Basis for Opinion

We conducted our audit in accordance with Singapore Standards on Auditing (SSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Accounting and Corporate Regulatory Authority (ACRA) *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (ACRA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

SSA 700: 32
SSA 720: 21

Other Information

SSA 720: 22(a)
SSA 720: 22(b)

Management is responsible for the other information. The other information comprises the Directors' Statement [set out on pages xx to xx].

SSA 720: 22(c)

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

SSA 720: 22(d)
SSA 720: 22(e)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Help tips

The "Other Information" section should be amended accordingly when the auditor concludes that a material misstatement of the other information exists. Please refer to the illustrative auditor's reports in Appendix 2 of SSA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information.*

For many private companies, the directors' statement may be the only document that constitutes other information. If the Company issues annual report, the "Other Information" section should be customised accordingly.

SSA 700: 33 *Responsibilities of Management and Directors for the Financial Statements*

SSA 700: 34(a)
SSA 700: A46
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Act and FRSs, 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: 34(b) In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

SSA 700: 35
SSA 700: A49
The directors' responsibilities include overseeing the Company's financial reporting process.

SSA 700: 37 *Auditor's Responsibilities for the Audit of the Financial Statements*

SSA 700: 38 Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

SSA 700: 39(a) As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

SSA 700: 39(b)(i)
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

SSA 700: 39(b)(ii)
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

SSA 700: 39(b)(iii)
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

SSA 700: 39(b)(iv)
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Help tips

The preceding paragraph would be replaced by the following when financial statements are prepared on a basis other than going concern:

Conclude on the appropriateness of management's use of the going concern basis of accounting. When such use is inappropriate and management uses an alternative basis of accounting, we conclude whether the alternative basis used by management is acceptable in the circumstances. We also evaluate the adequacy of the disclosures describing the alternative basis and reasons for its use. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

SSA 700: 39(b)(v)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

SSA 700: 40(a)

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

SSA 700: 43

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: 47

PA LLP
Public Accountants and
Chartered Accountants

SSA 700: 48 Singapore
SSA 700: 49 [Date]

Help tips

(i) Key Audit Matters

SSA 701 *Communicating Key Audit Matters In the Independent Auditor's Report* is applicable to audits of complete sets of general purpose financial statements of listed entities. A listed entity is defined in the Glossary of Terms to SSAs as "an entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body". As such, Key Audit Matters (KAMs) reporting is also applicable to entities which have their bonds or notes trading on Singapore Exchange or other recognised stock exchange.

KAMs relate to those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period and are selected from matters communicated to those charged with governance.

Auditors of non-listed entities may choose to communicate KAMs. This illustrative auditor's report does not include illustrations of KAMs of ABC Pte. Ltd. The auditor's report would be customised to include the KAMs according to specific circumstances of the entity.

Help tips (Continued)

(ii) Auditor's responsibilities relating to other information

SSA 720 (Revised) defines other information as financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.

A list of examples of amounts or other items that may be included in other information is available in Appendix 1 of SSA 720 (Revised).

For illustrations of auditor's reports relating to other information, please refer to Appendix 2 of SSA 720 (Revised).

For guidance on whether material inconsistencies exist for various circumstances in relation to the directors' statement, please refer to *Material Inconsistencies in Other Information under SSA 720 (Revised) – Guidance with regard to Directors' Statement* issued by ISCA. For example, one potential scenario is when the directors opine that the financial statements are drawn up so as to give a true and fair view of the financial position and performance of the Company while the auditor issues a qualified opinion due to a material misstatement in the financial statements. In this case, material inconsistencies exist, with respect to the matter giving rise to the qualified opinion, that require the auditor to report accordingly under the "Other Information" section.

(iii) Going concern

SSA 570 (Revised) *Going Concern* deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report.

Illustrations of auditor's reports relating to going concern are available in the Appendix of SSA 570 (Revised).

(iv) Titles of financial statements

FRS 1: 10

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

(v) First year of appointment as auditor

SSA 710: 17

If there is a change of auditor, include an "Other Matter" section after the "Basis for Opinion" section which could be disclosed as follows:

Other Matter

The financial statements of the Company for the 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 the predecessor auditor)****.*

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

For more information regarding disclosure of "Other Matter", please refer to SSA 706 (Revised) *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

ABC PTE. LTD.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

FRS 1: 99 (Illustrating the analysis of expenses by function)

Reference		Note	2022 $'000	2021 $'000
FRS 1: 81A FRS 1: 103				
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	934	706
FRS 1: 103	Selling and distribution expenses		(8,605)	(6,705)
FRS 1: 103	Adminstrative and other expenses		(7,595)	(6,528)
FRS 1: 82(b)	Finance costs	6	(113)	(143)
FRS 1: 82(ba)	Impairment loss on financial assets	7	(113)	(88)
FRS 1: 82(c)	Share of profit of joint venture		29	25
FRS 1: 85	**Profit before tax**	7	9,273	8,015
FRS 1: 82(d) FRS 12: 77	Income tax expense	8	(2,358)	(1,527)
FRS 1: 81A(a)	**Profit for the year***		6,915	6,488
	Other comprehensive income:			
FRS 1: 82A(a)(i)	*Items that will not be reclassified to profit or loss:*			
FRS 107: 20(a)(vii)	Net fair value gains on equity instruments at fair value through other comprehensive income		133	48
FRS 1: 81A(b)	**Other comprehensive income for the year, net of tax**		133	48
FRS 1: 81A(c)	**Total comprehensive income for the year***		7,048	6,536

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

Help tips

* If the Company does not have any other comprehensive income/(loss) in current and prior years, the total comprehensive income/(loss) would be disclosed as follows:

Profit/(loss) for the year, representing total comprehensive income/(loss) for the year	*XX*	*XX*

Help tips

(i) Presentation

FRS 1: 99

In the application of FRS 1, the Company has elected to present a single statement of profit or loss and other comprehensive income and for which the expenses are analysed by function.

As an alternative, the Company can present the analysis of expenses by nature if it provides information that is reliable and more relevant (Appendix A).

(ii) Other comprehensive income

FRS 1: 82A(a)

In this set of illustrative financial statements, the other comprehensive income relates to net fair value gains on equity instruments at fair value through other comprehensive income, which is an item that will not be reclassified to profit or loss. Where applicable, the Company is required to present, in accordance with 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.

FRS 1: 91

An entity may present items of other comprehensive income either:

(a) net of related tax effects, (as illustrated in the statement of profit or loss and other comprehensive income), or

(b) before related tax effects with one amount shown for the aggregate amount of income tax relating to those items (as illustrated below).

	2022	*2021*
	$'000	*$'000*
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Net fair value gains on equity instruments at fair value through other comprehensive income		
Net surplus on revaluation of freehold land and buildings		
Share of gain on property revaluation of associates		
Income tax relating to items of other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Net fair value gains on debt instruments at fair value through other comprehensive income		
Net fair value changes on debt instruments at fair value through other comprehensive income reclassified to profit or loss		
Foreign currency translation		
Income tax relating to items of other comprehensive income		
Other comprehensive income for the year, net of tax		

Help tips (Continued)

(ii) Other comprehensive income (Continued)

Either way, the amount of income tax relating to each item of other comprehensive income must be disclosed either in the statement of profit or loss and other comprehensive income or in the notes. In this illustration, the Company has chosen to disclose the related tax effects in Note 8 "Income tax expense".

(iii) Share of profit / (loss) of joint venture

"Share of profit / (loss) of joint venture" is presented net of tax and non-controlling interests in the joint venture.

(iv) Reclassification adjustments

FRS 1: 93-94

Reclassification adjustments are adjustments for amounts previously recognised in other comprehensive income now reclassified to profit or loss. Reclassification adjustments may be presented in the statement of profit or loss and other comprehensive income or in the notes. An entity presenting reclassification adjustments in the notes presents the items of other comprehensive income after any related reclassification adjustments.

(v) Separate disclosure of items of income and expense

FRS 1: 98

When items of income or expense are material, an entity shall disclose their nature and amount separately. Circumstances that would give rise to the separate disclosure of items of income and expense include:

(a) write-downs of inventories to net realisable value or of property, plant and equipment (PPE) to recoverable amount, as well as reversals of such write-downs;

(b) restructurings of the activities of an entity and reversals of any provisions for the costs of restructuring;

(c) disposals of items of PPE;

(d) disposals of investments;

(e) discontinued operations;

(f) litigation settlements; and

(g) other reversals of provisions.

ABC PTE. LTD.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

		Note	2022 $'000	2021 $'000
	ASSETS			
FRS 1: 60, 61	**Non-current assets**			
FRS 1: 54(a)	Property, plant and equipment	9	9,405	9,094
FRS 1: 54(b)	Investment properties	10	3,800	3,450
FRS 1: 54(e)	Investment in a joint venture	11	314	285
FRS 1: 54(d)	Investment securities	12	866	700
FRS 1: 54(h)	Loan to the holding company	13	1,055	1,055
FRS 1: 54(h)	Other receivables	14	165	162
			15,605	14,746
FRS 1: 60, 61	**Current assets**			
FRS 1: 54(g)	Inventories	15	7,963	4,706
FRS 115: B21	Right of return assets		53	70
FRS 1: 55	Prepayments		755	895
FRS 1: 54(h)	Loan to the holding company	13	-	1,020
FRS 1: 54(h)	Trade receivables	16	9,198	7,766
FRS 1: 54(i)	Cash and short-term deposits	17	7,093	3,776
			25,062	18,233
	Total assets		40,667	32,979
	EQUITY AND LIABILITIES			
	Equity			
FRS 1: 54(r)	Share capital	18	1,000	1,000
FRS 1: 54(r)	Retained earnings		28,639	21,724
FRS 1: 54(r)	Fair value reserve	19	181	48
FRS 1: 54(r)	**Equity attributable to owners of the Company**		29,820	22,772
FRS 1: 60, 61	**Non-current liabilities**			
FRS 1: 54(o)	Deferred tax liabilities	20	1,300	1,170
FRS 1: 54(m)	Borrowings	21	1,503	900
FRS 1: 54(k)	Other payables	22	24	24
			2,827	2,094
FRS 1: 60, 61	**Current liabilities**			
FRS 1: 54(n)	Income tax liabilities		1,336	789
FRS 1: 54(l)	Provisions	23	688	679
FRS 1: 54(k)	Trade payables	24	4,645	2,952
FRS 1: 54(k)	Other payables	22	574	476
FRS 115: 105	Contract liabilities	4	159	118
FRS 115: B21	Refund liabilities	4	146	351
FRS 1: 54(m)	Borrowings	21	472	2,748
			8,020	8,113
	Total liabilities		10,847	10,207
	Total equity and liabilities		40,667	32,979

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

Help tips

(i) Presentation of the third statement of financial position

FRS 1: 40A An 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 retrospective application, retrospective restatement or reclassification has a material effect on the information in the statement of financial position at the beginning of the earliest comparative period.

FRS 1: 40C 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 *Accounting Policies, Changes in Accounting Estimates and Errors.*

(ii) Current and non-current liabilities

FRS 1: 72-75 An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if the original term was for a period longer than twelve months, and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorised for issue.

If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

When an entity breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability becomes payable on demand, it classifies the liability as current, even if the lender agreed, after the reporting period and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. An entity classifies the liability as current because, at the end of the reporting period, it does not have an unconditional right to defer its settlement for at least twelve months after that date.

However, an entity classifies the liability as non-current if the lender agreed by the end of the reporting period to provide a period of grace ending at least twelve months after the reporting period, within which the entity can rectify the breach and during which the lender cannot demand immediate repayment.

(iii) Leases

FRS 116: 47 FRS 116 *Leases* requires a lessee to either present in the statement of financial position, or disclose in the notes, the right-of-use assets separately from other assets and lease liabilities separately from other liabilities. If a lessee does not present right-of-use assets separately in the statement of financial position, the lessee is required to include right-of-use assets within the same line item that the corresponding underlying assets would be presented if they were owned (e.g. under PPE) and it is required to disclose which line items in the statement of financial position include those right-of-use assets. Similarly, if the lessee does not present lease liabilities separately in the statement of financial position, the lessee is required to disclose the line items in the statement of financial position which include those liabilities.

In this illustration, the Company presented its ‘right-of-use assets’ under ‘property, plant and equipment’. The related lease liabilities were presented in the line item ‘borrowings’.

FRS 116: 48 Right-of-use assets that meet the definition of investment property must be presented in the statement of financial position as investment property.

In this illustration, the Company does not have right-of-use assets that meet the definition of investment property.

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

		Share capital $'000	Retained earnings $'000	Fair value reserve $'000	Total $'000
	At 1 January 2021	1,000	15,236	-	16,236
FRS 1: 106(d)(i)	Profit for the year	-	6,488	-	6,488
FRS 1: 106(d)(ii)	Other comprehensive income:				
FRS 1: 106A	Net fair value gains on equity instruments at fair value through other comprehensive income	-	-	48	48
FRS 1: 106(a)	Total comprehensive income for the year	-	6,488	48	6,536
	At 31 December 2021	1,000	21,724	48	22,772
	At 1 January 2022	1,000	21,724	48	22,772
FRS 1: 106(d)(i)	Profit for the year	-	6,915	-	6,915
FRS 1: 106(d)(ii)	Other comprehensive income:				
FRS 1: 106A	Net fair value gains on equity instruments at fair value through other comprehensive income	-	-	133	133
FRS 1: 106(a)	Total comprehensive income for the year	-	6,915	133	7,048
	At 31 December 2022	1,000	28,639	181	29,820

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

Help tips

(i) 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 dividends per share.

CA 403: 1

No dividend shall be payable to the shareholders of any company except out of profits.

(ii) Changes in accounting policy

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 2021) on the statement of changes in equity is as follows:

	Share capital	*Retained earnings*	*Total*
	$'000	*$'000*	*$'000*
At 1 January 2021			
Effect of adopting [ ] (Note X)			
At 1 January 2021 (restated)			
Profit for the year, representing total comprehensive income for the year			
At 31 December 2021			
At 1 January 2022			
Effect of adopting [ ] (Note X)			
At 1 January 2022 (restated)			
Profit for the year, representing total comprehensive income for the year			
At 31 December 2022			

(iii) Presentation of each component of equity in the statement of changes in equity

FRS 1: 106(d)

(a) FRS 1 requires an entity to show in the statement of changes in equity, for each component of equity, a 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.

ABC PTE. LTD.

STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

		Note	2022 $'000	2021 $'000
FRS 7: 1 FRS 7: 18(b)				
	Cash flows from operating activities			
	Profit before tax		9,273	8,015
FRS 7: 20(b), (c)	Adjustments for:			
	Depreciation of property, plant and equipment	9	1,588	1,527
	Loss/(gain) on disposal of property, plant and equipment	7	280	(263)
	Net fair value gains on investment properties	5	(350)	(118)
	Net fair value gains on investment securities	5	(33)	(21)
	Reversal of write-down of inventories	7	(150)	-
	Impairment loss on trade receivables	7	113	88
	Warranty provision charged to profit or loss	23	295	262
	Interest income	5	(35)	(28)
	Interest expense	6	113	143
	Share of profit of joint venture		(29)	(25)
	Unrealised exchange loss/(gain)		75	(26)
			11,140	9,554
FRS 7: 20(a)	Change in working capital:			
	Inventories and right of return assets		(3,090)	(4,021)
	Trade receivables		(1,545)	1,773
	Other receivables and prepayments		137	(698)
	Trade payables		1,693	(1,650)
	Other payables and provisions		(188)	(780)
	Contract liabilities and refund liabilities		(164)	-
	Cash generated from operations		7,983	4,178
FRS 7: 35	Income tax paid		(1,681)	(908)
FRS 7: 10	**Net cash generated from operating activities**		6,302	3,270
FRS 7: 21	**Cash flows from investing activities**			
FRS 7: 16(a)	Acquisition of property, plant and equipment	9	(1,524)	(1,646)
FRS 7: 16(b)	Proceeds from disposal of property, plant and equipment		220	400
FRS 7: 16(f)	Receipt of loan made to the holding company		1,020	-
FRS 7: 31	Interest received		35	28
FRS 7: 10	**Net cash used in investing activities**		(249)	(1,218)
FRS 7: 21	**Cash flows from financing activities**			
FRS 7: 31	Interest paid		(113)	(143)
FRS 7: 17(e)	Payment of principal portion of lease liabilities		(272)	(240)
FRS 7: 17(d)	Repayment of bank borrowings		(2,476)	(800)
	Pledged deposits		(350)	-
FRS 7: 10	**Net cash used in financing activities**		(3,211)	(1,183)
	Net increase in cash and cash equivalents		2,842	869
	Effect of exchange rate changes on cash and cash equivalents		(75)	(53)
	Cash and cash equivalents at 1 January		3,776	2,960
FRS 7: 45	**Cash and cash equivalents at 31 December**	17	6,543	3,776

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

Help tips

(i) Direct/Indirect method

FRS 7: 18

FRS 7 *Statement of Cash Flows* 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) Non-cash transactions

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 the acquisition of assets either by assuming directly related liabilities or by means of a lease.

(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 and dividends received and paid 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 before 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.

(vi) Reporting cash flows from operating activities

FRS 7: 20

FRS 7: 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.

Help tips (Continued)

(vii) Leases

FRS 116: 50

A lessee shall classify cash flows relating to leases as follows:

(a) cash payments for the principal portion of the lease liabilities within financing activities;

FRS 7: 31-33

(b) cash payments for the interest portion of the lease liabilities consistent with presentation of interest payments chosen by the Company; and

(c) short-term lease payments, payments for leases of low-value assets and variable lease payments that are not included in the measurement of the lease liabilities within operating activities.

Help tips

(i) Ordering of illustrative disclosures

FRS 1: 113, 114

The ordering of the illustrative disclosures in ABC Pte. Ltd. is based on FRS 1: 114(c) as an example. Entities are encouraged to tailor their disclosures including the structure of the notes to the financial statements according to each entity's specific facts and circumstances.

(ii) Enhancing disclosure effectiveness

Entities can consider improving disclosure effectiveness by using alternative formats that may better communicate the links between different pieces of financial information so as to facilitate users of financial statements to identify the relevant information more easily, and therefore enhance the understandability and comparability of financial statements. Tailoring disclosures to the entity-specific facts and circumstances may not reduce the length of the financial statements, but it should reduce the clutter and, in turn, enhance the usefulness of the financial statements.

In addition, entities should consider their own specific circumstances when determining which disclosures to include, based on their specific materiality considerations. If a particular transaction or item is immaterial to the reporting entity, FRSs allow for non-disclosure. If immaterial information is included in the financial statements, the sheer volume of information can potentially reduce the transparency and usefulness of the financial statements as material and relevant information loses prominence.

Help tips for financial reporting in uncertain times

While the negative impact of COVID-19 is gradually declining, entities may still need to consider the impact of COVID-19 and the various macroeconomic events and factors in preparing their financial statements. While the specific areas of judgement may not change, the impact of COVID-19 may result in the application of further judgement within those areas.

Although the financial year 2022 is the third annual reporting period impacted by COVID-19, the economic and financial impacts still remain to some extent, and further changes to estimates may need to be made in the measurement of entities' assets and liabilities.

Entities should consider the principles in FRS 1 and provide disclosures that allow users of financial statements to understand the impact of events and conditions on the entity's financial position and financial performance. Such disclosures should, where possible, highlight the impact of the various macroeconomic events and factors including COVID-19 on the entity's financial performance or financial position. Where significant judgements have been made involving estimation uncertainty, there should be disclosure of the relevant sensitivities or ranges of possible outcomes to help users understand the estimation uncertainty.

These notes form an integral part of 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 1: 138(c)
FRS 24: 13

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).

(ii) Disclosure of name of ultimate controlling party

FRS 24: 13

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

If neither the Company's parent nor the ultimate controlling party produces consolidated financial statements available for public use, the name of the next most senior parent that does so shall also be disclosed.

FRS 1: 117

2. Summary of significant accounting policies

2.1 Basis of preparation

FRS 1: 112(a)
FRS 1: 117(a)
FRS 1: 16

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

FRS 1: 51(d), (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.

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 PPE (FRS 16 *Property, Plant and Equipment*), intangibles (FRS 38 *Intangible Assets*) and investment properties (FRS 40 *Investment Property*).

(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. Omissions, misstatements or obscuring of information are material if they could reasonably be expected to influence decisions that the primary users of the financial statements make on the basis of the financial statements. Materiality depends on the magnitude and nature of the omission or misstatement, judged in the surrounding circumstances. The magnitude or nature of the item, or a combination of both could be the determining factor.

(iii) Inappropriate 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, management is required to make an assessment of an entity's ability to continue as a going concern.

FRS 1: 122

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

FRS 1: 25

In addition, during management's assessment, when it becomes 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 (Continued)

(iv) Going concern (Continued)

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

The financial statements of the Company have been prepared on a going concern basis notwithstanding the net capital deficiency of approximately $__________as at 31 December 2022. 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 is 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 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.

Help tips for financial reporting in uncertain times

Going concern

Despite the decrease in the unpredictability of the further impact of COVID-19, there still may be material uncertainties that cast doubt on the entity's ability to operate as a going concern. FRS 1: 25 requires management, when preparing financial statements, to assess an entity's ability to continue as a going concern, and whether the going concern assumption is appropriate. In assessing whether the going concern assumption is appropriate, the standard requires an entity to consider all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period.

When an entity prepares its financial statements, it is required to disclose these material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern in order to make clear to readers that the going concern basis of accounting used by management is subject to such material uncertainties. Regardless of whether management concludes that the material uncertainties do not exist, if management has exercised significant judgement in making its going concern assessment, the significant judgements must be disclosed.

When making that assessment, management takes into consideration the existing and anticipated effects of the COVID-19 outbreak and other macroeconomic events and factors on the entity's activities. Management should consider all available information about the future that was obtained after the reporting date, up until the date of which the financial statements are issued in their assessment of going concern. This includes, but is not limited to, supportive measures taken by governments and banks to provide relief to affected entities and subsequent gradual curtailment of those measures.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

Help tips for financial reporting in uncertain times (Continued)

Going concern (Continued)

These are the considerations that an entity may disclose to address its going concern:

- whether the entity has sufficient cash and/or headroom in its credit facilities to survive a downturn whilst noting that the evolving nature of the COVID-19 pandemic means that uncertainties will remain, and it may not be able to reasonably estimate the future impact of COVID-19;
- actions the entity has taken to mitigate the risk that the going concern assumption is not appropriate such as activities to preserve liquidity;
- consideration of the entity's business model and related risks; and
- any challenges of the underlying data and assumptions used to make the going concern assessment.

Appendix D example 1 provides illustrative disclosures relating to going concern.

2.2 Adoption of new and amended standards and interpretations

FRS 8: 28, 29

The accounting policies adopted are consistent with those of the previous financial year except that in the current financial year, the Company has adopted all the new and amended standards which are relevant to the Company and are effective for annual financial period beginning on 1 January 2022. The adoption of these standards did not have any material effect on the financial statements of the Company.

Help tips

FRSs effective for the current financial year ended 31 December 2022

Amendment to FRS 116 *Leases*: COVID-19-Related Rent Concessions beyond 30 June 2021 is effective for the annual period beginning on or after 1 April 2021.

The following standards and interpretations are effective for the annual period beginning on or after 1 January 2022:

- Amendments to FRS 103 *Business Combinations:* Reference to the Conceptual Framework
- Amendments to FRS 16 *Property, Plant and Equipment:* Proceeds before Intended Use
- Amendments to FRS 37 *Provisions, Contingent Liabilities and Contingent Assets:* Onerous Contracts – Cost of Fulfilling a Contract
- Annual Improvements to FRSs 2018-2020

In this illustration, it is assumed that the adoption of the new and amended standards and interpretations does not have any material impact on the financial statements.

Appendix B provides illustrative disclosures relating to the adoption of Amendments to FRS 37 *Provisions*, *Contingent Liabilities and Contingent Assets:* Onerous Contracts – Cost of Fulfilling a Contract.

2. Summary of significant accounting policies (Continued)

2.2 Adoption of new and amended standards and interpretations (Continued)

COVID-19 Help tips

Rent concessions

FRS 116: 46A

In May 2020, an amendment to FRS 116 *COVID-19 Related Rent Concessions* was issued to provide an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change was not a lease modification.

FRS 116: 46B(b)

On 31 March 2021, a further amendment to FRS 116 *COVID-19 Related Rent Concessions beyond 30 June 2021* was issued to extend the time period over which the practical expedient is available for use by 12 months (i.e. permitting lessees to apply the relief to a reduction in lease payments originally due on or before 30 June 2022) as a response to the ongoing economic challenges resulting from the COVID-19 pandemic.

FRS 116: C1C
FRS 116: C20BA

The 2021 amendment is effective for annual reporting periods beginning on or after 1 April 2021. Entities are required to apply this practical expedient retrospectively, recognising the cumulative effect of initially applying that amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate).

FRS 116: C20BC

A lessee shall apply the practical expedient in paragraph 46A consistently to eligible contracts with similar characteristics and in similar circumstances, irrespective of whether the contract became eligible for the practical expedient as a result of the lessee applying *Covid-19 Related Rent Concessions* or *Covid-19 Related Rent Concessions beyond 30 June 2021*.

FRS 116: 60A

A lessee that applies the practical expedient shall disclose:

(a) the fact that it has applied the practical expedient;

(b) whether the practical expedient was applied to all rent concessions that meet the conditions for it or, if not applied to all such rent concessions, information about the nature of the contracts to which it has applied the practical expedient; and

(c) the amount recognised in profit or loss to reflect changes in lease payments that arise from such rent concessions to which the lessee has applied the practical expedient.

The rent concession may be presented in the same line as the lessee's other rental expenses (e.g. variable lease payments not included in the measurement of lease liabilities, short-term lease expense or low-value lease expense). If the entity has no other rental expenses, the entity may also elect to present the negative variable lease payment under "other income".

The main effect on cash flows would be the reduction in cash outflows for leases during the period of the rent concession. The reduction in lease liability due to the rent concession would be disclosed as a non-cash change in lease liabilities.

Appendix C provides illustrative disclosures relating to rent concessions – lessee that applies practical expedient.

2.3 Standards issued but not yet effective

FRS 8: 30, 31

A number of new standards and amendments to standard that have been issued are not yet effective and have not been applied in preparing these financial statements.

The directors expect that the adoption of these new and amended standards will have no material impact on the financial statements in the year of initial application.

Help tips

The following are new / revised / amendments to FRSs issued by the Accounting Standards Council of Singapore up to 31 December 2022 which are effective for annual reporting periods beginning after 1 January 2022:

Description	**Effective for annual periods beginning on or after**
Amendments to FRS 1 *Presentation of Financial Statements*: Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to FRS 1 *Presentation of Financial Statements* and FRS Practice Statement 2: Disclosure of Accounting Policies	1 January 2023
Amendments to FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*: Definition of Accounting Estimates	1 January 2023
Amendments to FRS 12 *Income Taxes*: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
FRS 117 *Insurance Contracts*	1 January 2023
Amendments to FRS 116 *Leases:* Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to FRS 1 *Presentation of Financial Statements:* Non-current Liabilities with Covenants	1 January 2024
Amendments to FRS 110 *Consolidated Financial Statements* and FRS 28 *Investments in Associates and Joint Ventures*: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date to be determined

FRS 8 requires an entity to:

(a) disclose those standards or interpretations that have been issued which are not yet effective; and

(b) provide known or reasonably estimable information to assess the possible impact that the application of such FRS will have on the entity's financial statements in the period of initial application, or if that impact is not known or reasonably estimable, a statement to that effect.

In this illustration, it is assumed that the adoption of the new and amended standards does not have any material impact on the financial statements in the year of initial application. Thus, 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)

2.4 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.

FRS 21: 28

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

Help tips

(i) Non-monetary items measured at fair value

FRS 23: 23

If there are non-monetary items measured at fair value in a foreign currency, the following disclosure is suggested:

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair values were measured.

(ii) Change in the functional currency

FRS 21: 54

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.

(iii) Presentation currency different from functional currency

FRS 21: 53

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

(a) the entity's functional currency; and

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

2. Summary of significant accounting policies (Continued)

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	6 to 40 years
Leasehold improvements	3 to 7 years
Machinery and other equipment	3 to 5 years
Office equipment, furniture fixtures and fittings	3 years
Motor vehicles	5 years

FRS 16: 51, 61

The residual value, useful lives 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.

2. Summary of significant accounting policies (Continued)

2.5 Property, plant and equipment (Continued)

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 fair value gains or losses on qualifying cash flow hedges of PPE that are transferred from the hedging reserve.

(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: 6, 8

Items such as spare parts, stand-by equipment and servicing equipment are recognised as PPE only if they meet the definition of PPE, 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.

(iv) Component approach to depreciation

FRS 16: 7, 13, 14
FRS 16: 44

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 on disposal or when no future economic benefits are expected from its use or disposal.

2. Summary of significant accounting policies (Continued)

2.5 Property, plant and equipment (Continued)

Help tips (Continued)

(iv) Component approach to depreciation (Continued)

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.

2.6 Investment properties

FRS 40: 5, 8(e)

Investment properties are properties that are either owned by the Company or right-of-use assets that are held to earn rentals or for capital appreciation, or both, rather than for use in the production or supply of goods or services, or for administrative purposes, or in the ordinary course of business. Investment properties comprise completed investment properties and properties that are being constructed or developed for future use as investment properties.

FRS 40: 20

Investment properties are initially measured at cost, including transaction costs.

FRS 40: 33,35

Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Help tips

FRS 40: 14, 75(c)

Judgement is needed to determine whether a property qualifies as investment property. When classification is difficult, the entity should disclose the criteria developed by the entity so that it can exercise that judgement consistently in accordance with the definition of investment property.

FRS 40: 30, 56

Alternatively, the entity may adopt the cost model which is to measure investment properties at cost less accumulated depreciation and accumulated impairment losses. In these circumstances, disclosure about the cost basis and depreciation rates would be required.

FRS 40: 79(e)

In addition, for any investment properties recorded at cost, FRS 40 requires disclosure about the fair value, including disclosures about the methods and significant assumptions used to determine the fair value. Therefore, entities would still need to determine the fair value of the investment properties. In the exceptional cases when an entity cannot measure the fair value of investment properties reliably, it shall disclose:

(a) a description of the investment properties;

(b) an explanation of why fair value cannot be measured reliably; and

(c) if possible, the range of estimates within which fair value is highly likely to lie.

2. Summary of significant accounting policies (Continued)

2.7 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, where applicable, 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.

2.8 Joint venture

FRS 111: 4, 7

A joint arrangement is a contractual arrangement whereby two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

FRS 111: 14

A joint arrangement is classified either as joint operation or joint venture, based on the rights and obligations of the parties to the arrangement.

FRS 111: 15, 16

To the extent the joint arrangement provides the Company with rights to the assets and obligations for the liabilities relating to the arrangement, the arrangement is a joint operation. To the extent the joint arrangement provides the Company with rights to the net assets of the arrangement, the arrangement is a joint venture.

FRS 28: 16, 32

The Company recognises its interest in joint venture as an investment and accounts for the investment using the equity method from the date on which it becomes a joint venture.

FRS 28: 32

On acquisition of the investment, any excess of the cost of the investment over the Company's share of the net fair value of the investee's identifiable assets and liabilities represents goodwill and is included in the carrying amount of the investment. Any excess of the Company's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the entity's share of the joint venture's profit or loss in the period in which the investment is acquired.

FRS 28: 10
FRS 28: 28

Under the equity method, the investment in joint venture is carried in the statement of financial position at cost plus post-acquisition changes in the Company's share of net assets of the joint venture. The profit or loss reflects the share of results of the operations of the joint venture. Distributions received from the joint venture reduce the carrying amount of the investment. Where there has been a change recognised in other comprehensive income by the joint venture, the Company recognises its share of such changes in other comprehensive income. Unrealised gains and losses resulting from transactions between the Company and the joint venture are eliminated to the extent of the interest in the joint venture.

2. Summary of significant accounting policies (Continued)

2.8 Joint venture (Continued)

FRS 28: 38

When the Company's share of losses in the joint venture equals or exceeds the carrying amount of the investment, together with any long-term interests that form part thereof, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

FRS 28: 40
FRS 28: 42

After application of the equity method, the Company determines whether it is necessary to recognise an additional impairment loss on the Company's investment in joint venture. The Company determines at the end of each reporting period whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in profit or loss.

FRS 28: 33, 35

The financial statements of the joint venture are prepared as the same reporting date as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

Help tips

(i) Loans to joint venture

FRS 28: 38

The interest in a joint venture is the carrying amount of the investment in the joint venture under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the joint venture. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that joint venture. Such items may include preference shares and long-term receivables or loans but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans.

(ii) Joint venture with different year end

FRS 28: 33, 34

The financial statements of the joint venture are prepared as of the same reporting date as the Company unless it is impracticable to do so. When the financial statements of a joint venture used in applying the equity method are prepared as of a different reporting date from that of the Company, adjustments are made for the effects of significant transactions or events that occur between that date and the reporting date of the Company. In any case, the difference between the end of the reporting period of the joint venture and that of the investor shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.

FRS 112: 22(b)

When the financial statements of a joint venture used in applying the equity method are as of a reporting date or for a period that is different from that of the Company, the reporting date of the financial statements of the joint venture and the reason for using a different reporting date or different period shall be disclosed.

2. Summary of significant accounting policies (Continued)

2.9 Financial instruments

(a) Financial assets

Initial recognition and measurement

FRS 109: 3.1.1

Financial assets are recognised when, and only when the entity becomes party to the contractual provisions of the instruments.

FRS 109: 5.1.1

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

FRS 109: 5.1.3

Trade receivables are measured at the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party, if the trade receivables do not contain a significant financing component at initial recognition.

Subsequent measurement

Investments in debt instruments

FRS 109: 5.2.1

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the contractual cash flow characteristics of the asset. The three measurement categories for classification of debt instruments are amortised cost, fair value through other comprehensive income (FVOCI) and FVPL. The Company only has debt instruments at amortised cost.

FRS 109: 4.1.2

Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through the amortisation process.

Investments in equity instruments

FRS 109: 4.1.4
FRS 109: 5.7.5
FRS 109: 5.7.6
FRS 109: 5.7.1

On initial recognition of an investment in equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in other comprehensive income which will not be reclassified subsequently to profit or loss. Dividends from such investments are to be recognised in profit or loss when the Company's right to receive payments is established. For investments in equity instruments which the Company has not elected to present subsequent changes in fair value in other comprehensive income, changes in fair value are recognised in profit or loss.

2. Summary of significant accounting policies (Continued)

2.9 Financial instruments (Continued)

(a) Financial assets (Continued)

Derecognition

FRS 109: 3.2.3

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition 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 had been recognised in other comprehensive income for debt instruments is recognised in profit or loss.

(b) Financial liabilities

Initial recognition and measurement

FRS 109: 3.1.1

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 109: 5.1.1

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

Subsequent measurement

FRS 109: 5.7.2

After initial recognition, financial liabilities that are not carried at FVPL 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.

Derecognition

FRS 109: 3.3.1
FRS 109: 3.3.4

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. On derecognition, the difference between the carrying amounts and the consideration paid is recognised in profit or loss.

2. Summary of significant accounting policies (Continued)

2.9 Financial instruments (Continued)

Help tips

Where applicable, consider including the following illustrative accounting policies:

(i) Debt instruments at fair value through other comprehensive income (FVOCI)

FRS 109: 4.1.2A

Financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Financial assets measured at FVOCI 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 for impairment losses, foreign exchange gains and losses 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 derecognised.

(ii) Debt instruments at fair value through profit or loss (FVPL)

FRS 109: 4.1.4

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss in the period in which it arises.

(iii) Financial liabilities at fair value through profit or loss which are held for trading

FRS 109: 4.2.1(a)

Financial liabilities at FVPL 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. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

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

(iv) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. Changes in fair value of derivatives are recognised in profit or loss.

2. Summary of significant accounting policies (Continued)

2.9 Financial instruments (Continued)

Help tips (Continued)

(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.

(vi) Current/ Non-current classification of borrowings

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, the liability is classified as non-current.

2. Summary of significant accounting policies (Continued)

2.10 Impairment of financial assets

FRS 109: 5.5.1

The Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at FVPL. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

FRS 109: 5.5.3
FRS 109: 5.5.5

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is recognised for credit losses expected over the remaining life of the exposure, irrespective of timing of the default (a lifetime ECL).

FRS 109: 5.5.15
FRS 109: B5.5.35

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment which could affect debtors' ability to pay.

FRS 107: 35F(b)
FRS 109: 5.5.9
FRS 109: B5.5.37
FRS 109: B5.4.9

The Company considers a financial asset in default when contractual payments are 60 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Help tips

(i) Simplified approach for trade receivables and contract assets

FRS 109: 5.5.15
FRS 109: 5.5.16

An entity is required to apply the simplified approach for trade receivables or contract assets that do not contain a significant financing component, or when the entity applies the practical expedient for contracts that have a maturity of one year or less. However, an entity has a policy choice to apply either the simplified approach or the general approach for the following:

(a) a trade receivables or contract assets that contain a significant financing component in accordance with FRS 115 *Revenue from Contracts with Customers*. The policy choice may be applied separately to trade receivables and contract assets.

(b) a lease receivables that result from transactions that are within the scope of FRS 116. The policy choice may be applied separately to finance and operating lease receivables.

2. Summary of significant accounting policies (Continued)

2.10 Impairment of financial assets (Continued)

Help tips (Continued)

(ii) Debt instruments at fair value through other comprehensive income

If the Company has debt instruments at FVOCI, consider including the following illustrative accounting policy:

For debt instruments at FVOCI, the Company applies the low credit risk simplification. At every reporting date, the Company evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Company reassesses the internal credit rating of the debt instrument. In addition, the Company considers that there has been a significant increase in credit risk when the contractual payments are more than xx days past due.

2.11 Cash and cash equivalents

FRS 7: 6, 8, 46

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

2.12 Inventories

FRS 2: 9, 10, 25
FRS 2: 36(a)
FRS 2: 6

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in first-out method and comprises all costs of purchase, costs of conversion 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.

When necessary, allowance is 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

Entities may consider to further elaborate the costs of purchase as stated in the illustrative disclosure below if applicable. The disclosure should be tailored accordingly.

FRS 2: 11

Costs of purchase comprise 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. Summary of significant accounting policies (Continued)

2.13 Provisions

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.

FRS 37: 59
FRS 37: 45, 46, 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: 36

Provisions for assurance-type 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.

2.14 Government grants

FRS 20: 7

Government grants are recognised as a receivable when there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

FRS 20: 12
FRS 20: 26

When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, the fair value is recognised as deferred income on the statement of financial position and is recognised as income in equal amounts over the expected useful life of the related asset.

FRS 20: 10A

When 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.

Help tips

FRS 20: 29

Grants relating to income should be presented as part of profit or loss, either separately or under a general heading such as “other income”. Alternatively, they may be deducted in reporting the related expense.

FRS 20: 24

Grants relating to assets should be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying value of the asset. The grant is then recognised in profit or loss over the useful life of the depreciable asset by way of a reduced depreciation charge.

FRS 8: 13

Both methods are acceptable for the presentation of grants relating to income and assets, and this needs to be consistently applied for all similar grants. Management should apply judgement in determining which grants are similar for the presentation applied to the financial statements. Where the grants are dissimilar and different method of presentation is adopted in the financial statements, disclosure of this method of presentation in the accounting policy is required.

2. Summary of significant accounting policies (Continued)

2.15 Borrowing costs

FRS 23: 8

All borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss in the period in which they are incurred.

2.16 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.

2.17 Leases

FRS 116: 9

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

(a) As lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities representing the obligations to make lease payments and right-of-use assets representing the right to use the underlying leased assets.

Right-of-use assets

FRS 116: 23-24
FRS 116: 30-32

The Company recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

FRS 116: 33

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. The accounting policy for impairment is disclosed in Note 2.7.

FRS 116: 47

The Company's right-of-use assets are presented within property, plant and equipment (Note 9).

2. Summary of significant accounting policies (Continued)

2.17 Leases (Continued)

(a) As lessee (Continued)

Lease liabilities

FRS 116: 26, 27

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

FRS 116: 38(b)

FRS 116: 36, 39

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company's lease liabilities are included in borrowings (Note 21).

Short-term leases and leases of low-value assets

FRS 116: 5, 6

The Company applies the short-term lease recognition exemption to its short-term leases of machinery (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

(b) As lessor

FRS 116: 61-62
FRS 116: 81-83

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising from operating leases on the Company's investment properties is accounted for on a straight-line basis over the lease terms. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2. Summary of significant accounting policies (Continued)

2.17 Leases (Continued)

(b) As lessor (Continued)

Help tips

Initial measurement of right-of-use asset

FRS 116: 24(d)

Under FRS 116, the cost of a right-of-use asset also includes an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

In this illustration, the Company's lease arrangements do not contain an obligation to dismantle and remove the underlying asset, restore the site on which it is located or restore the underlying asset to a specified condition.

2.18 Revenue

FRS 115: 47

Revenue is measured based on the consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

FRS 115: 31, 32, 73

Revenue is recognised when the Company satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognised is the amount allocated to the satisfied performance obligation.

(a) Sale of machinery and parts

FRS 115: 119(c)

The Company sells machinery and parts.

FRS 115: 119(a)

Revenue is recognised when the goods are delivered to the customer and all criteria for acceptance have been satisfied. The goods are often sold with a right of return and with retrospective volume rebates based on the aggregate sales over a period of time.

FRS 115: 119(b)

The amount of revenue recognised is based on the transaction price, which comprises the contractual price, net of the estimated volume rebates and adjusted for expected returns. Based on the Company's experience with similar types of contracts, variable consideration is typically constrained and is included in the transaction only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

2. Summary of significant accounting policies (Continued)

2.18 Revenue (Continued)

(a) Sale of machinery and parts (Continued)

FRS 115: 119(d)
FRS 115: 55
FRS 115: B21, B23, B25

The Company recognises the expected volume rebates payable to customer where consideration have been received from customers and refunds due to expected returns from customers as refund liabilities. Separately, the Company recognises a related asset for the right to recover the returned goods, based on the former carrying amount of the good less expected costs to recover the goods, and adjust them against cost of sales correspondingly.

FRS 115: 59
FRS 115: B24
FRS 115: B25

At the end of each reporting date, the Company updates its assessment of the estimated transaction price, including its assessment of whether an estimate of variable consideration is constrained. The corresponding amounts are adjusted against revenue in the period in which the transaction price changes. The Company also updates its measurement of the asset for the right to recover returned goods for changes in its expectations about returned goods.

FRS 115: 129
FRS 115: 94

The Company has elected to apply the practical expedient to recognise the incremental costs of obtaining a contract as an expense when incurred where the amortisation period of the asset that would otherwise be recognised is one year or less.

(b) Rendering of services

FRS 115: 119(c)
FRS 115: 119(a)

The Company installs machinery and parts. The rendering of installation service is either sold separately or in bundled packages with the sale of machinery and parts. For bundled packages, the Company accounts for the sale of machinery and parts, and installation service separately. The transaction price is allocated to the sale of machinery and parts and installation services based on their relative stand-alone selling prices. Revenue from rendering of the installation services and related handling fees is recognised when the services have been performed and rendered.

(c) Warranty services

FRS 115: 119(e)
FRS 115: B29

The Company offers customers the option to separately purchase extended warranty for machinery sold. The extended warranty is a distinct service to the customer in addition to the assurance that the product complies with agreed-upon specifications. These service-type warranties are bundled together with the sale of machinery. Contracts for bundled sales of machinery and service-type warranty comprise two performance obligations because the promises to deliver the machinery and to provide the warranty are capable of being distinct. The portion of the transaction price allocated to the warranty is initially recognised as a contract liability. Revenue is recognised over the period in which the warranty services are provided.

2. Summary of significant accounting policies (Continued)

2.18 Revenue (Continued)

Help tips

(i) Disclosures on performance obligations

FRS 115: 119

FRS 115:119 sets out the disclosures required about an entity's performance obligations in contracts with customers, including a description of all of the following:

(a) when the entity typically satisfies its performance obligations (e.g. upon shipment, upon delivery, as services are rendered or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement;

(b) the significant payment terms (for example, when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained);

(c) the nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (i.e. if the entity is acting as an agent);

(d) obligations for returns, refunds and other similar obligations; and

(e) types of warranties and related obligations.

Each entity needs to tailor the disclosures based on its specific circumstances.

(ii) Assurance-type versus service-type warranty

FRS 115: B28-B30

In this illustration, the Company provides service-type warranty (i.e. the warranty is a distinct service in addition to the assurance that the product complies with agreed-upon specifications) which is a separate performance obligation to which the Company allocates a portion of the transaction price under FRS 115.

This is to be distinguished from assurance-type warranty which is not a distinct service and is accounted for as a provision for warranty under FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Where applicable, consider including the following illustrative accounting policies:

(iii) Bill-and-hold arrangements

FRS 115: B79-B82

In some bill-and-hold arrangements, even though the Company has not yet delivered the goods to the customer, it has satisfied its performance obligation as control of the good has been transferred to the customer, and all of the following criteria are met: the reason for the bill-and-hold arrangement is substantive, the product is identified separately as belonging to the customer, the product currently is ready for physical transfer to the customer, and the Company does not have the ability to use the good or to direct it to another customer.

2. Summary of significant accounting policies (Continued)

2.18 Revenue (Continued)

Help tips (Continued)

(iv) Consignment arrangements

FRS 115: B77, B78

In some consignment arrangements, although the good has been delivered to the customer, the Company retains control of the good and satisfies its performance obligation only upon the sale of the good to the end-customer of the customer.

(v) Entity acting as agent

FRS 115: B34-B38

The Company acts as an agent to provide a service of arranging for another party to transfer goods or services to a customer. The Company recognises a commission fee, being the net amount of consideration that the Company retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party.

2.19 Taxes

(a) Current income tax

FRS 12: 5, 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 end of the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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 by the end of the reporting period.

FRS 12: 74

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)

2.19 Taxes (Continued)

Help tips

Where applicable, consider including the following illustrative accounting policies:

Deferred tax liabilities are recognised for all temporary differences, except:

FRS 12: 22(c)

- *where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and*

FRS 12: 39

- *in respect of taxable temporary differences associated with interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.*

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 except:

FRS 12: 24

- *where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and*

FRS 12: 44

- *in respect of deductible temporary differences associated with interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.*

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.

(c) Goods and Services Tax (GST)

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

- where the GST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the GST 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 GST included.

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

2. Summary of significant accounting policies (Continued)

2.20 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.

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.

3. Significant accounting judgements and estimates

The preparation of the Company's financial statements requires management to make judgements, 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 Judgements made in applying accounting policies

(a) Determination of functional currency

FRS 21: 9

In determining the functional currency of the Company, judgement 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 judgements and estimates (Continued)

FRS 1: 122

3.1 Judgements made in applying accounting policies (Continued)

FRS 115: 123
FRS 115: 22

(b) Identification of performance obligations in a bundled sale of machinery and parts and installation service

The Company provides installation services that are either sold separately or in bundled packages with the sale of machinery and parts to a customer. The installation services are part of the negotiated exchange between the Company and the customer.

FRS 115: 27, 29

The Company determined that the machinery and parts and installation are capable of being distinct. The fact that the Company regularly sells machinery and parts and installation on a stand-alone basis indicates that the customer can benefit from the products on their own. The Company also determined that the promises to deliver the machinery and parts and to provide installation are distinct within the context of the contract. The machinery and parts and installation are not inputs to a combined item in the contract. The Company is not providing a significant integration service because the presence of the machinery and parts and installation together in this contract do not result in any additional or combined functionality and neither the machinery and parts nor the installation modify or customise the other. In addition, the machinery and parts and installation are not highly interdependent or highly interrelated, because the Company would be able to deliver the machinery and parts even if the customer declined installation and would be able to provide installation in relation to products sold by other distributors. Consequently, the Company allocated a portion of the transaction price to the machinery and parts and the installation services based on relative stand-alone selling prices.

(c) Determination of lease term of contracts with extension options

FRS 116: 18, 19

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company has several lease contracts that include extension options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to extend the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise the extension. After the commencement date, the Company reassesses the lease term whether there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to extend (e.g. construction of significant leasehold improvements or significant customisation to the leased asset).

The Company included the extension option in the lease term for leases of leasehold buildings because of the leasehold improvements made and the significant costs that would arise to replace the assets. The extension options for leases of motor vehicles are not included as part of the lease term because the Company typically leases motor vehicles for not more than five years and, hence, will not exercise the extension options.

FRS 116: 59(b)(ii), B50

As at 31 December 2022, potential future (undiscounted) cash outflows of approximately $347,000 have not been included in lease liabilities because it is not reasonably certain that the leases will be extended.

3. Significant accounting judgements and estimates (Continued)

FRS 1: 122

3.1 Judgements made in applying accounting policies (Continued)

Help tips

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

Management is of the opinion that there are no significant judgements 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

Help tips

Entities should consider whether disclosures required under FRS 1: 125 are met.

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) 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 2022 was $7,963,000 (2021: $4,706,000). If the future expected realisable value lower by 10% of its carrying amount, the carrying amount of the Company's inventories would have been $796,000 lower.

(b) Provision for expected credit losses of trade receivables

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust historical credit loss experience with forward-looking information. At every reporting date, historical default rates are updated and changes in the forward-looking estimates are analysed.

3. Significant accounting judgements and estimates (Continued)

3.2 Key sources of estimation uncertainty (Continued)

(b) Provision for expected credit losses of trade receivables (Continued)

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables is disclosed in Note 29(a).

The carrying amount of the Company's trade receivables as at 31 December 2022 was $9,198,000 (2021: $7,766,000).

Help tips

Expected credit loss

FRS 107: 35G(b)

FRS 107: 35G(b) requires an entity to disclose how forward-looking information has been incorporated into the determination of ECL, including the use of macroeconomic information. The Company did not provide detailed information on how the forecast economic conditions have been incorporated in the determination of ECL because the impact is not significant. Entities are expected to provide more detailed information if the forward-looking information has a significant impact in the calculation of ECL.

(c) Fair value of investment properties

The Company carries its investment properties at fair value, with changes in fair value being recognised in profit or loss. The Company engaged real estate valuation experts to assess fair value as at 31 December 2022. The fair value of investment properties are determined by independent real estate valuation experts using the market comparable. The key assumptions used to determine the fair value of these investment properties and sensitivity analysis are provided in Note 28.

The carrying amount of the Company's investment properties as at 31 December 2022 was $3,800,000 (2021: $3,450,000).

(d) Estimation of variable consideration for sale of machinery and parts

Certain contracts for the sale of machinery and parts include a right of return and volume rebates that give rise to variable consideration. In estimating variable consideration, the Company is required to use either the expected value method or the most likely amount method. Judgement is required in determining which method better predicts the amount of consideration to which it will be entitled. The method and assumptions used in determining variable consideration and assessing constraint is disclosed in Note 4(b).

The Company updates its assessment of expected returns and volume rebates quarterly and the refund liabilities are adjusted accordingly. Estimates of expected returns and volume rebates are sensitive to changes in circumstances and the Company's past experience regarding returns and rebate entitlements may not be representative of customers' actual returns and rebate entitlements in the future. As at 31 December 2022, the amount recognised as refund liabilities for the expected returns and volume rebates was $146,000 (2021: $351,000).

3. Significant accounting judgements and estimates (Continued)

3.2 Key sources of estimation uncertainty (Continued)

(e) 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 2022 was $688,000 (2021: $679,000). If the future expected warranty claims increased by 10%, the carrying amount of the Company's provision for warranty would have been $69,000 higher.

Further details of provision for warranty are discussed in Note 23 to the financial statements.

Help tips

(i) Tailored disclosures

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

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

(ii) Leases – estimating the incremental borrowing rate

Where applicable, consider including the following illustrative disclosure:

FRS 116: 26

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate to measure lease liabilities. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The incremental borrowing rate therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

3. Significant accounting judgements and estimates (Continued)

3.2 Key sources of estimation uncertainty (Continued)

Help tips for financial reporting in uncertain times

Given the inherent level of uncertainty in the current environment and the sensitivity of judgements and estimates, disclosures of the key assumptions used, and judgements made in estimating recoverable amounts are important. Although assumptions may already have been updated for the impact of COVID-19 in the previous year, entities should again carefully scrutinise their existing judgements and estimates as they may find additional areas in which they will need to make judgements and estimates.

It is possible that COVID-19 is still a triggering event for some entities that requires them to perform impairment testing.

In addition, the changes in the economic environment such as rising inflation, rising interest rates, volatile commodity and energy prices and supply chain challenges impact key inputs such as revenue growth and cost of sales in determining the recoverable amount for impairment assessment. The heightened uncertainty may also warrant the use of multiple scenarios analyses (e.g., probability weighted expected cash flows) in the development of accounting estimates and affect the related disclosures made on key assumptions, estimation uncertainties and sensitivity analyses.

Impairment of financial assets

The disclosure of the key assumptions used and judgements made in estimating ECLs is particularly relevant. Important disclosures would, for example, include the values of the key macroeconomic inputs used in a multiple economic scenario analysis and the probability weights of these scenarios, as well as the assumptions used to determine how the different challenges for specific sectors and regions have been taken into account and the effect of any management overlays.

Appendix D example 2 provides illustrative disclosures on the assumptions used and judgements made in ECL calculation.

Impairment of non-financial assets

It is important for entities to provide detailed disclosures of the assumptions made, the supporting evidence and the impact of any changes in the key assumptions (i.e. a sensitivity analysis). This is especially the case as they will have likely been materially updated compared to the key assumptions, judgements and estimates applied in the previous annual financial statements. These would include, for example, the values of the key assumptions, sensitivity analysis, and the probability weights of multiple scenarios when using an expected cash flow approach.

The non-financial assets that are likely to be subject to such impairment triggers include property, plant and equipment, intangible assets (including those with indefinite lives) and goodwill. Whilst inventories are not covered by FRS 36 *Impairment of Assets*, entities will need to consider the impact of reduction in the net realisable value of inventories.

The extent of the disclosures made is a matter of judgement. The greater the impact, the greater the need for more extensive disclosures.

FRS 36: 110 — To the extent that the impact of COVID-19 is less severe than previously anticipated and the economic environment is recovering, entities may need to consider whether any impairment recognised in the previous year as a result of the situation at that time should be reversed.

FRS 36: 24, 99, 136 — As many entities may not be permitted under FRS 36 to use the most recent detailed calculation of the recoverable amount in the impairment test made in a preceding period, additional disclosures may be useful when entities conclude otherwise.

4. Revenue

FRS 115: 114, 115

(a) Disaggregation of revenue

Timing of transfer of good or service	At a point in time $'000	Over time $'000	Total $'000
2022			
Sale of machinery	31,844	-	31,844
Sale of machinery parts	10,614	-	10,614
Installation service	12,760	-	12,760
Warranty service	-	107	107
	55,218	107	55,325
2021			
Sale of machinery	27,312	-	27,312
Sale of machinery parts	10,621	-	10,621
Installation service	9,385	-	9,385
Warranty service	-	98	98
	47,318	98	47,416

(b) Judgement and methods used in estimating revenue

Estimating variable consideration

FRS 115: 126

In estimating the variable consideration for the sale of machinery and parts, the Company uses the expected value method to predict the volume rebates and product returns by the different product types. For existing products, management relies on historical experience with purchasing patterns and product returns of customers, analysed by different product types and customers, for the past 2 to 4 years. For new products, management uses the historical trends for purchasing patterns and returns for similar products, and adjusted for higher return rates based on historical trends for new product launches, so as to determine the projection for new product returns.

FRS 115: 123

Management has exercised judgement in applying the constraint on the estimated variable consideration that can be included in the transaction price. For volume rebates, management has determined that a portion of the estimated variable consideration is subject to the constraint as, based on past experience with the customers, it is highly probable that a significant reversal in the cumulative amount of revenue recognised will occur, and therefore will not be recognised as revenue. For product returns, management considers its historical experience and evidence from other similar contracts to develop an estimate of variable consideration for expected returns using the expected value method.

4. Revenue (Continued)

(c) Contract balances

	31 December 2022 $'000	31 December 2021 $'000	1 January 2021 $'000
Trade receivables (Note 16)	9,198	7,766	9,627
Contract liabilities	159	118	127

FRS 115: 117, 119
FRS 115: 118

Contract liabilities relate to the Company's obligation to provide warranty services to customers for which the Company has received advances from customers for extended warranty purchased for sale of machinery. Contract liabilities are recognised as revenue over the period the warranty services are provided. Contract liabilities have increased due to an increase in the Company's customer base.

Set out below is the amount of revenue recognised from:

		2022 $'000	2021 $'000
FRS 115: 116(b)	Amounts included in contract liabilities at the beginning of the year	79	76
FRS 115: 116(c)	Performance obligations satisfied in previous years	28	30

(d) Refund liabilities

	2022 $'000	2021 $'000
Arising from retrospective volume rebates	98	257
Arising from rights of return	48	94
	146	351

(e) Transaction price allocated to remaining performance obligations

FRS 115: 120

Management expects that the transaction price allocated to remaining unsatisfied (or partially unsatisfied) performance obligations as at 31 December 2022 and 2021 may be recognised as revenue in the next reporting periods as follows:

	2022 $'000	2023 $'000	2024 $'000	Total $'000
Unsatisfied and partially unsatisfied performance obligations as at:				
31 December 2022	-	158	112	270
31 December 2021	161	93	-	254

4. Revenue (Continued)

Help tips

(i) Disaggregation of revenue

FRS 115: 114

Under FRS 115: 114, an entity is required to disaggregate revenue from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

FRS 115: B87

The extent to which an entity's revenue is disaggregated depends on the facts and circumstances of its contracts with customers. Some entities may need to use more than one type of category while other entities may use only one type of category to disaggregate revenue. Hence the disclosure should be tailored accordingly for each entity.

FRS 115: B89

Examples of categories that can be used as basis for disaggregation include:

(a) type of good or service (e.g. major product lines)

(b) geographical regions

(c) market or customer type

(d) type of contract (e.g. fixed-price and time-and-materials contracts)

(e) contract duration (e.g. short-term and long-term contracts)

(f) timing of transfer of goods or services (e.g. at a point in time or over time)

(g) sales channels (e.g. sold directly to consumers or sold through intermediaries)

FRS 115: B88

When selecting the type of category to disaggregate revenue, an entity should consider how information about its revenue has been presented for other purposes, for example, annual reports or investor presentations, and information regularly reviewed by the chief operating decision maker for evaluating the financial performance of operating segments.

4. Revenue (Continued)

Help tips (Continued)

(ii) Methods, inputs and assumptions in determining revenue

FRS 115: 126

FRS 115: 126 sets out the disclosures required about the methods, inputs and assumptions used for determining its transaction price and amounts allocated to performance obligations, including all of the following:

(a) determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration;

(b) assessing whether an estimate of variable consideration is constrained;

(c) allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable); and

(d) measuring obligations for returns, refunds and other similar obligations.

Each entity needs to tailor the disclosures based on its specific circumstances.

(iii) Estimate of variable consideration

FRS 115: 53

In this illustration, variable consideration is estimated using the expected value method. FRS 115: 53 requires the use of either the “expected value” method or the “most likely amount” method, depending on which method the entity expects to better predict the amount of consideration to which it will be entitled. If the “most likely amount” method is used, the disclosure should be tailored accordingly.

(iv) Significant judgement in applying FRS 115

FRS 115: 123

An entity is required to disclose the judgements, and changes in the judgements made in applying FRS 115 that significantly affect the determination of the amount and timing of revenue from contracts with customers. Each entity needs to tailor the disclosures based on its specific circumstances.

In particular, an entity is required to explain the judgements, and changes in the judgements, used in determining both of the following:

(a) the timing of satisfaction of performance obligations; and

(b) the transaction price and the amounts allocated to performance obligations.

4. Revenue (Continued)

Help tips (Continued)

(v) Contract balances

FRS 115: 116 requires the disclosure of the opening balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed. Therefore, the Company has presented the balances as at 1 January 2021, being the opening balances of the comparative period, to comply with this requirement.

FRS 115: 116

FRS 115: 116 also requires disclosure of 'revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period' and 'revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods'. Entities can present this in a tabular or narrative format.

The Company provided qualitative and quantitative disclosures of its contract balances and changes on those balances during the period. Entities are permitted to disclose information about contract balances, and changes therein, as they deem to be most appropriate, which would include a combination of tabular and narrative information.

(vi) Transaction price allocated to remaining performance obligations

FRS 115: 120

FRS 115: 120 allows the disclosure to be in the form of either qualitative explanation or quantitative explanation that is based on the time bands that would be most appropriate for the duration of the remaining performance obligations. In this illustration, the Company has disclosed quantitative explanation.

FRS 115: 121

No disclosure of transaction price allocated to remaining performance obligations in accordance with FRS 115: 120 is necessary if either of the following conditions is met:

(a) the performance obligation is part of a contract that has an original expected duration of one year or less; or

(b) revenue is recognised based on the entity's right to invoice the customer in the amount that corresponds directly with the value of the entity's performance completed to date in accordance with FRS 115: B16.

FRS 115: 122

When the practical expedient in FRS 115: 121 is applied, FRS 115: 122 requires disclosure of such application. Qualitative disclosure of whether any consideration from contracts with customers is not included in the transaction price (e.g. due to constraint on estimate of variable consideration) and, therefore, not included in the information disclosed is also required.

Help tips for financial reporting in uncertain times

Entities may need to use significant judgement to determine the effect of uncertainties related to the COVID-19 pandemic and other macroeconomic events on their revenue accounting, e.g. estimates of variable consideration (including the constraint) and provide appropriate disclosures of these judgements. Decisions made in response (e.g. modifying contracts, continuing transacting with customers despite collectability concerns, revising pricing) may need to be disclosed. Entities may also need to consider the impact of delays in deliveries due to supply chain issues, which may impact volume rebate estimations, amongst other impacts, due to lower sales during the year. The disruption of supply chains may result in some cases in significant increases in the unavoidable costs of meeting the obligations under certain contacts which, in turn, may impact the measurement of provision for onerous contracts.

5. Other income

		2022 $'000	2021 $'000
FRS 107: 20(b)	Interest income	35	28
	Handling fees	410	446
	Government grants	10	8
FRS 40: 75(f)(i)	Rental income from investment properties (Note 10)	96	85
FRS 40: 76(d)	Net fair value gains on investment properties (Note 10)	350	118
FRS 107: 20(a)(i)	Net fair value gains on investment securities (Note 12)	33	21
		934	706

Interest income is recognised using the effective interest method.

Handling fees relate to amounts charged to customers for preparing and shipping the machinery to the customers' premises.

6. Finance costs

		2022 $'000	2021 $'000
	Interest expense on:		
FRS 107: 20(a)(v)	- Bank borrowings and bank overdrafts (Note 21)	55	72
FRS 107: 20(a)(v)	- Lease liabilities (Note 21)	58	71
FRS 107: 20(b)	Interest expense on financial liabilities not measured at fair value through profit or loss (Note 30)	113	143

7. Profit before tax

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

		2022 $'000	2021 $'000
FRS 40: 75(f)	Direct operating expenses arising from investment properties (Note 10)	35	28
	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
	Impairment loss on financial assets:	113	88
	- Trade receivables (Note 16)		
FRS 1: 98(c)	Loss/(gain) on disposal of property, plant and equipment	280	(263)
	Net foreign exchange loss/(gain)	98	(169)
	Lease expense (Note 25(c))	37	42
FRS 1: 98(a)	Reversal of write-down of inventories (Note 15)	(150)	-
FRS 1: 97	Sales and marketing expense	560	432
FRS 1: 97	Commission expense	889	740

Help tips

(i) Direct operating expenses arising from investment properties

FRS 40: 75(f)

If applicable, direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period and direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period should be disclosed separately. Repairs and maintenance expenses, if material, should be disclosed separately.

(ii) Impairment loss on financial assets

In this illustration, the Company only recognised impairment loss on trade receivables. The Company has assessed and measured the impairment loss allowance for its other financial assets (other receivables and loan to the holding company) and determined that the ECL is insignificant (Note 29(a)).

FRS 109: 5.5
FRS 1: 82(ba)

The impairment requirements in FRS 109: 5.5 apply to financial assets measured at amortised cost, financial assets measured at FVOCI, lease receivables, contract assets, loan commitments and financial guarantee contracts. Each entity needs to assess and determine the impairment required under FRS 109. FRS 1: 82(ba) requires the statement of profit or loss to include impairment loss (including reversals of impairment loss or impairment gain) determined in accordance with FRS 109: 5.5 as a separate line item. The breakdown of impairment loss by financial assets can be disclosed in the notes.

8. Income tax expense

The major components of income tax expense recognised in profit or loss for the years ended 31 December 2022 and 2021 were:

		2022 $'000	2021 $'000
	Current income tax		
FRS 12: 80(a)	- Current year	1,969	1,635
FRS 12: 80(b)	- Under/(over)provision in respect of prior years	259	(308)
		2,228	1,327
	Deferred income tax		
FRS 12: 80(c), (f)	- Origination and reversal of temporary differences (Note 20)	130	200
	Income tax expense recognised in profit or loss	2,358	1,527

The major components of income tax expense recognised in other comprehensive income for the years ended 31 December 2022 and 2021 were:

		2022 $'000	2021 $'000
	Deferred income tax		
FRS 12: 81(ab)	- Net fair value gains on equity instruments at fair value through other comprehensive income	23	8
	Income tax expense recognised in other comprehensive income	23	8

Relationship between tax expense and accounting profit

FRS 12: 81(c)(i) 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 2022 and 2021 were as follows:

	2022 $'000	2021 $'000
Profit before tax	9,273	8,015
Income tax using the statutory tax rate of 17% (2021: 17%)	1,576	1,363
Adjustments:		
Non-deductible expenses	873	871
Income not subject to tax	(335)	(384)
Income tax rebate	(15)	(15)
Under/(over)provision in respect of prior years	259	(308)
Income tax expense recognised in profit or loss	2,358	1,527

8. Income tax expense (Continued)

Help tips

Deferred income tax

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 $________ (2021: $________) and capital allowances of $________ (2021: $________) 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 and capital allowances have no expiry date.

9. Property, plant and equipment

FRS 1: 78(a)

Reference		Leasehold land $'000	Leasehold buildings $'000	Leasehold improvements $'000	Machinery and other equipment $'000	Office equipment, furniture fixtures and fittings $'000	Motor vehicles $'000	Total $'000
FRS 16: 73(a)	**Cost**							
FRS 16: 73(a)	At 1 January 2021	7,000	4,300	1,600	530	350	200	13,980
FRS 16: 73(e)(i)	Additions	-	-	200	890	556	500	2,146
FRS 16: 73(e)(ii)	Disposals	-	-	-	-	(287)	(200)	(487)
FRS 16: 73(d)	At 31 December 2021	7,000	4,300	1,800	1,420	619	500	15,639
FRS 16: 73(d)	At 1 January 2022	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)(ix)	Modification of lease liability	-	875	-	-	-	-	875
FRS 16: 73(e)(ii)	Disposals	-	-	-	(620)	(428)	-	(1,048)
FRS 16: 73(d)	At 31 December 2022	7,000	5,175	2,388	1,616	311	500	16,990
	Accumulated depreciation							
FRS 16: 73(d)	At 1 January 2021	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 2021	1,800	1,552	1,673	1,130	340	50	6,545
FRS 16: 73(d)	At 1 January 2022	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 2022	2,098	1,975	1,973	1,369	20	150	7,585
	Carrying amount							
	At 31 December 2021	5,200	2,748	127	290	279	450	9,094
	At 31 December 2022	4,902	3,200	415	247	291	350	9,405

9. Property, plant and equipment (Continued)

Right-of-use assets acquired under leasing arrangements are presented together with the owned assets of the same class. Details of such leased assets are disclosed in Note 25(a).

FRS 116: 45-46

During the financial year, the Company renegotiated and modified an existing lease contract for a warehouse by extending the lease term by another 5 years at revised lease payments. As this extension is not part of the terms and conditions of the original lease contract, it is accounted for as a lease modification with an addition to the right-of-use assets, presented under 'Property, plant and equipment'. The corresponding remeasurement to lease liability is presented under 'Borrowings' (Note 21).

FRS 7: 43

During the previous financial year, the Company acquired motor vehicles with an aggregate cost of $500,000 by means of leases. The cash outflow on acquisition of property, plant and equipment in 2022 amounted to $1,524,000 (2021: $1,646,000).

FRS 16: 74

During the previous financial year, leasehold land and buildings with carrying amount of $7,948,000 were mortgaged to secure bank borrowings (Note 21). The mortgage was discharged during the financial year.

Help tips

(i) Measurement bases

FRS 16: 73(a)

The measurement bases (i.e cost or valuation) used for determining the gross carrying amount of each class of PPE should be disclosed.

(ii) 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.

(iii) 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 of inventories should be classified as part of an entity's operating activities.

Help tips for financial reporting in uncertain times

Many entities will have to assess PPE for impairment. In addition, entities may need to update their assumptions about the future use of an asset, specifically the remaining useful life and residual values. Property, plant and equipment may be under-utilised or idled for a period, which may lead entities to change plans and require a reassessment of the useful life estimates used in the depreciation calculations. Additionally, a weak economy may affect the residual value of property, plant and equipment that will also need to be included in any estimates of depreciation expense. Considering the weakening of the impact of COVID-19 in many countries, the economic environment may in some cases be experiencing signs of recovery, in which case, entities may need to consider whether any impairments recognised in previous years should be reversed as required by FRS 36: 110.

10. Investment properties

		2022 $'000	2021 $'000
FRS 40: 76	At 1 January	3,450	3,332
FRS 40: 76(d)	Net fair value gains on investment properties	350	118
	At 31 December	3,800	3,450

The Company's investment properties consist of a car park and two residential properties in Singapore. Management has determined that the investment properties consist of two classes of asset, i.e. car park and residential properties, based on the nature, characteristics and risks of each property.

FRS 40: 75(a)
FRS 40: 75(e)

Investment properties are stated at fair value, which has been determined based on valuations performed as at 31 December 2022 and 31 December 2021. The valuations were performed by Chartered Surveyors Pte Ltd, an independent valuer with a recognised and relevant professional qualification and with recent experience in the location and category of the properties being valued. Details of valuation techniques and inputs used are disclosed in Note 28.

The investment properties are leased to third parties under operating leases, further summary details of which are included in Note 25 to the financial statements.

Help tips

Valuation of investment properties

FRS 40: 77

When a valuation obtained for investment property is adjusted significantly for the purpose of the financial statements, for example to avoid double-counting of assets or liabilities that are recognised as separate assets and liabilities, the entity should disclose a reconciliation between the valuation obtained and the adjusted valuation included in the financial statements, showing separately the aggregate amount of any recognised lease obligations that have been added back, and any other significant adjustments.

FRS 40: 75(e)

If there has been no such valuation performed by an independent valuer, that fact should be disclosed.

Help tips for financial reporting in uncertain times

The impact on fair value measurement arising from the COVID-19 pandemic and the continuing economic and market disruptions varies across countries, markets and industries. Some uncertainty is likely to continue, even as many jurisdictions begin to ease the restrictions and open up their economies. When valuations are subject to significant measurement uncertainty due to the current environment and there is a wider range of estimates of fair value measurement, the entity is required to apply judgement to determine the point within that range that is most representative of fair value measurement in the circumstances. While market volatility may suggest that the prices are aberrations and do not reflect fair value, it would not be appropriate for an entity to disregard market prices at the measurement date, unless those prices are from transactions that are not orderly.

A significant increase or decrease in volume or activity in a market can also influence the valuation techniques used in the fair value measurement. Entities will need to assess how those techniques are applied and whether inputs are observable at the measurement date.

11. Investment in a joint venture

FRS 112: 21

The Company has 50% (2021: 50%) interest in the ownership and voting rights in a joint venture, XYZ JV Co. Ltd. This joint venture is incorporated in People's Republic of China and is in the business of selling machinery. The Company jointly controls the venture with another partner under a contractual agreement and requires unanimous consent for all major decisions over the relevant activities.

FRS 112: 21(b)(ii)
FRS 112: B12, B13

Summarised financial information in respect of XYZ JV Co. Ltd. based on its FRS financial statements, and reconciliation with the carrying amount of the investment in the financial statements are as follows:

Summarised statement of financial position

	2022 $'000	2021 $'000
Inventories	233	206
Right of return assets	12	-
Trade receivables	106	123
Cash and cash equivalents	132	168
Current assets	483	497
Non-current assets excluding goodwill	662	608
Goodwill	50	50
Non-current assets	712	658
Total assets	1,195	1,155
Current liabilities	(200)	(236)
Non-current liabilities	(417)	(399)
Total liabilities	(617)	(635)
Net assets	578	520
Net assets excluding goodwill	528	470
Proportion of the Company's ownership	50%	50%
Company's share of net assets	264	235
Goodwill on acquisition	50	50
Carrying amount of investment	314	285

	2022 $'000	2021 $'000
The above amounts include the following:		
- Current financial liabilities (excluding trade and other payables and provisions)	-	-
- Non-current financial liabilities (excluding trade and other payables and provisions)	29	35

11. Investment in a joint venture (Continued)

Summarised statement of profit or loss and other comprehensive income

	2022 $'000	2021 $'000
Revenue	238	232
Cost of sales	(96)	(95)
Operating expenses	(48)	(51)
Depreciation	(24)	(24)
Interest income	-	-
Interest expense	(10)	(10)
Profit before tax	60	52
Income tax expense	(2)	(2)
Profit after tax	58	50
Other comprehensive income	-	-
Total comprehensive income	58	50

FRS 112: 23

The Company's share of the joint venture's capital commitments in respect of property, plant and equipment as at 31 December 2022 is $50,000 (2021: $25,000). The joint venture has no contingent liabilities.

Help tips

(i) Exemptions from applying the equity method

FRS 28: 17-19

In this illustration, the joint venture is accounted for using the equity method. FRS 28 *Investments in Associates and Joint Ventures* provides exemption from applying the equity method if all the following apply:

(a) the entity is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the entity not applying the equity method.

(b) the entity's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).

(c) the entity did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market.

(d) the ultimate or any intermediate parent of the entity produces financial statements available for public use, in which subsidiaries are consolidated or are measured at fair value through profit or loss.

11. Investment in a joint venture (Continued)

Help tips (Continued)

(ii) Loans to joint venture

(a) If the entity has loan to joint venture which in substance, form part of the entity's net investment in the joint venture, a suggested disclosure is as follows:

	2022	*2021*
	$'000	*$'000*
Investment, at cost		
Share of post-acquisition results		
Loan to joint venture		
Carrying amount of investment		

The loan to joint venture is unsecured, interest-free and has no fixed repayment terms. Such loan is considered by the directors as an extension of the Company's investment in the joint venture.

(b) Where the loan to joint venture represents a financial asset due from the joint venture and the loan has no fixed terms of repayment, the entity should estimate the fair value upon recognition by discounting the expected future cash flows at the prevailing interest rate, taking into account the expected date of repayment. The entity should also include the relevant disclosures under FRS 109.

Help tips for financial reporting in uncertain times

Entities will need to consider whether there is any impairment of their investment in joint venture. Impairment charges relating to investment in joint venture should be accounted for in accordance with the equity method under FRS 28. FRS 28 requires the investment in a joint venture to be considered as a single cash-generating unit, rather than 'drilling down' into the separate cash-generating units determined by the joint venture. The impairment test should be undertaken in accordance with the requirements of FRS 36.

FRS 107: 7, 31

12. Investment securities

Financial assets

		2022 $'000	2021 $'000
FRS 107: 8(a)(i)	At fair value through profit or loss		
	- Equity securities (quoted)	210	177
FRS 107: 8(h)(ii)	At fair value through other comprehensive income		
	- Equity securities (unquoted)	656	523
		866	700

FRS 107: 11A

The fair values of each of the investments in unquoted equity securities designated at fair value through other comprehensive income at the end of the reporting period were as follows:

		2022 $'000	2021 $'000
FRS 107: 11A(a) FRS 107: 11A(c)	At fair value through other comprehensive income		
	- Equity securities (unquoted)		
	DEF Pte Ltd	409	373
	GHI Pte Ltd	247	150
		656	523

FRS 107: 11A(b)

The Company has elected to measure these unquoted equity securities at fair value through other comprehensive income due to the Company's intention to hold these equity securities for long-term appreciation.

12. Investment securities (Continued)

Financial assets (Continued)

Help tips

Categories of financial assets and financial liabilities

FRS 107: 8

FRS 107 requires disclosure of the carrying amounts of financial instruments under each of the categories in FRS 109, either on the face of the statement of financial position or in the notes. The categories of financial instruments include:

(a) financial assets measured at FVPL, showing separately:

(i) those designated as such upon initial recognition; and

(ii) those mandatorily measured at FVPL in accordance with FRS 109

(b) financial liabilities at FVPL, showing separately:

(i) those designated as such upon initial recognition; and

(ii) those that meet the definition of held for trading in FRS 109

(c) financial assets measured at amortised cost

(d) financial liabilities measured at amortised cost

(e) financial assets measured at FVOCI, showing separately:

(i) financial assets that are measured at FVOCI in accordance with FRS 109: 4.1.2A; and

(ii) investments in equity instruments designated as such upon initial recognition in accordance with FRS 109: 5.7.5.

In this illustration, the disclosure requirement is met in the respective notes to the financial statements (refer to this note and Note 30). Alternatively, the disclosure of the carrying amounts of financial instruments under each of the classifications in FRS 109 may be presented in a separate centralised note.

13. Loan to the holding company

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

The loan to the holding company is unsecured and bears interest at SORA + 0.5% (2021: SORA + 0.5%) per annum. The first repayment of $1,020,000 was on 30 November 2022 and the remainder is repayable on 30 November 2024.

14. Other receivables

Other receivables are security deposits paid in relation to leases of buildings. These deposits are refundable to the Company at the end of the lease term.

15. Inventories

		2022 $'000	2021 $'000
	Statement of financial position:		
FRS 1: 78(c) FRS 2: 37	Machinery and parts	7,963	4,706
	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 2022.

Help tips

(i) Inventories disclosure

Some of the key disclosures relating to inventories include:

FRS 2: 36(d) (a) amount of inventories recognised as an expense during the period;

FRS 2: 36(e) (b) amount of any write-down of inventories to net realisable value recognised as an expense;

FRS 2: 36(f), (g) (c) amount of any reversal of any write-down that was recognised as a reduction in the amount of inventories recognised as expense in the period the write-down occurred, the circumstances of inventories recognised as expense and the circumstances or events leading to such reversals; and

FRS 2: 36(h) (d) carrying amount of inventories pledged as security for liabilities.

(ii) Inventories classifications

FRS 2: 37 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.

Help tips for financial reporting in uncertain times

Inventories may need to be written down to their net realisable value because of reduced movement in inventory, or inventory obsolescence due to lower-than-expected sales.

FRS 2 *Inventories* requires that fixed production overheads are included in the cost of inventory based on normal production capacity. Reduced production might affect the extent to which overheads can be included in the cost of inventory.

Entities should assess the significance of any write-downs and whether they require disclosure in accordance with FRS 2.

Disclosures about inventories, including the measurement bases used, assist users in understanding how transactions, events and conditions are reflected in the financial statements, and the sensitivity to change. At a minimum, entities will need to disclose the amount of any write-down of inventories recognised in profit or loss, as well as any subsequent reversal of such write-downs. In addition, entities need to disclose the circumstances or events that lead to a reversal of any write-down.

16. Trade receivables

		2022	2021
		$'000	$'000
FRS 1: 77, 78(b)	Trade receivables:		
	- Third parties	6,906	5,918
FRS 24: 18(b)	- Holding company	1,034	1,855
FRS 24: 18(b)	- Related companies	1,900	522
		9,840	8,295
	Less: Allowance for expected credit losses	(642)	(529)
		9,198	7,766

FRS 107: 7, 31

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

FRS 107: 35H

The movement in allowance for expected credit losses of trade receivables computed based on lifetime ECL was as follows:

	2022	2021
	$'000	$'000
At 1 January	529	441
Provision for expected credit losses	113	88
At 31 December	642	529

Help tips

Receivables subject to offsetting arrangements

If an entity has offsetting arrangements, a suggested disclosure is as follows:

The Company regularly purchases machinery parts from its related companies and sell machinery to its related companies. Both parties have an arrangement to settle the net amount due to or from each other on a 60-days term basis.

The Company's trade receivables and trade payables that are off-set are as follows:

FRS 107: 13C(a)
FRS 107: 13C(b)
FRS 107: 13C(c)

		31 December 2022 $'000	
	Gross carrying amounts before offsetting	*Amounts offset*	*Net amounts in the statement of financial position*
Description			
Trade receivables			
Trade payables			
		31 December 2021 $'000	
Description			
Trade receivables			
Trade payables			

17. Cash and short-term deposits

		2022 $'000	2021 $'000
FRS 107: 7, 31	Cash at banks	6,742	3,775
FRS 107: 7, 31	Cash on hand	1	1
	Pledged deposits	350	-
		7,093	3,776

Pledged deposits are for a tenure of 60 to 90 days which have been pledged to banks to secure bank overdraft facilities.

For the purpose of presenting the statement of cash flows, cash and cash equivalents comprise the following at the end of the financial year:

	2022 $'000	2021 $'000
Cash and short-term deposits	7,093	3,776
Pledged deposits	(350)	-
Bank overdrafts (Note 21)	(200)	-
	6,543	3,776

Help tips

(i) Cash not available for use

FRS 7: 48, 49

There may be circumstances in which cash and bank balances held by the 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 $_______ (2021: $________) which are not freely remissible for use by the Company because of currency exchange restrictions.

FRS 1: 66(d)

Cash and cash equivalents which are restricted in its use for more than twelve months shall be classified as non-current assets.

(ii) 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.

(iii) Cash equivalents for the purpose of presenting statement of cash flows

FRS 7: 6-9

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.

18. Share capital

	2022		2021	
	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(a)(iii), (v)

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.

19. Fair value reserve

FRS 1: 79(b)

Fair value reserve represents the cumulative fair value changes, net of tax, of equity securities at fair value through other comprehensive income until they are disposed of or impaired.

20. Deferred tax liabilities

FRS 12: 81(g)

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

	At 1 January 2021	Recognised in profit or loss (Note 8)	At 31 December 2021/ 1 January 2022	Recognised in profit or loss (Note 8)	At 31 December 2022
	$’000	$’000	$’000	$’000	$’000
Deferred tax assets/ (liabilities)					
Differences in depreciation for tax purposes	(1,020)	(170)	(1,190)	(150)	(1,340)
Others	50	(30)	20	20	40
	(970)	(200)	(1,170)	(130)	(1,300)

FRS 12: 81(f)

At the end of the reporting period, no deferred tax liability (2021: nil) has been recognised for taxes that would be payable on the undistributed earnings of the Company’s joint venture as the joint venture of the Company cannot distribute its earnings until it obtains the consent of both the joint venturers. At the end of the reporting period, the Company does not foresee giving such consent.

21. Borrowings

FRS 107: 7, 31

	2022	2021
	$'000	$'000
Current:		
- Lease liabilities (secured) (Note 25)	272	272
- Bank overdrafts (secured)	200	-
- Bank borrowings (secured)	-	2,476
	472	2,748
Non-current:		
- Lease liabilities (secured) (Note 25)	1,503	900
	1,975	3,648

Bank overdrafts

The bank overdrafts are secured by the Company's fixed deposits. The weighted average effective interest rate is 3.0% (2021: 2.6%) per annum.

Bank borrowings

The bank borrowings were fully repaid during the financial year. The weighted average effective interest rate is 2.90% (2021: 2.86%) per annum.

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.

21. Borrowings (Continued)

FRS 7.44A-44D

A reconciliation of liabilities arising from financing activities excluding bank overdrafts is as follows:

	1 January 2022	Cash flows	Non-cash changes			31 December 2022
			Modification of lease liability	Accretion of interests	Other	
	$'000	$'000	$'000	$'000	$'000	$'000
Liabilities						
Lease liabilities						
- current	272	(330)	-	58	272	272
- non-current	900	-	875	-	(272)	1,503
Bank borrowings	2,476	(2,531)	-	55	-	-
	3,648	(2,861)	875	113	-	1,775
Asset						
Pledged deposits	-	350	-	-	-	350

	1 January 2021	Cash flows	Non-cash changes			31 December 2021
			Acquisition	Accretion of interests	Other	
	$'000	$'000	$'000	$'000	$'000	$'000
Liabilities						
Lease liabilities						
- current	169	(330)	90	71	272	272
- non-current	762	-	410	-	(272)	900
Bank borrowings						
- current	800	(872)	-	72	2,476	2,476
- non-current	2,476	-	-	-	(2,476)	-
	4,207	(1,202)	500	143	-	3,648

21. Borrowings (Continued)

Help tips

(i) Defaults or breaches of covenants on borrowings

FRS 107: 18,19

FRS 107 requires additional disclosures in the event of defaults or 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 2022.

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 2023.

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.

(ii) Changes in liabilities arising from financing activities

FRS 7: 44A

FRS 7: 44A requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

FRS 7: 44D

The illustration has illustrated one way to fulfil the disclosure requirement by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including the changes required by FRS 7: 44B, namely:

FRS 7: 44B

(a) changes from financing cash flows;

(b) changes arising from obtaining or losing control of subsidiaries or other businesses;

(c) effect of changes in foreign exchange rates;

(d) changes in fair values; and

(e) other changes.

FRS 7: 44C

In addition, the disclosure requirement also applies to changes in financial assets, for example, assets that hedge liabilities arising from financing activities, if cash flows from those financial assets were, or future cash flows will be included in cash flows from financing activities.

FRS 7: 44E

If an entity provides the disclosures required by FRS 7: 44A in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities.

21. Borrowings (Continued)

Help tips (Continued)

(iii) Modification of lease liability

FRS 116: Appendix A

FRS 116: 45-46

A change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term) is a lease modification. For lease modifications that are not accounted for as a separate lease, the lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate and record the corresponding adjustment against the right-of-use asset.

In this illustration, the Company has extended the lease term by modifying the existing lease contract. This disclosure example also applies to changes in consideration of a lease, for example, rent concessions provided by the lessor that are not part of the original terms and conditions of the lease.

Help tips for financial reporting in uncertain times

Entities may have obtained additional financing, amended the terms of existing debt agreements or obtained waivers if they no longer satisfy debt covenants. In such cases, they will need to consider the guidance provided in FRS 109 to determine whether changes to existing contractual arrangements represented a substantial modification or, potentially, a contract extinguishment, which would have accounting implications in each case. Furthermore, entities may need to determine whether a breach of covenants as of financial year end will require non-current liabilities to be reclassified as current liabilities in their financial statements.

22. Other payables

		2022	2021
		$'000	$'000
	Current:		
FRS 1: 77	- GST payables	168	129
	- Other payables	128	184
	- Accrued expenses	278	163
		574	476
	Non-current:		
	- Other payables	24	24
		598	500

FRS 107: 31

Other payables (current) relate to non-trade payables to third parties. They are non-interest bearing and have an average term of 3 months.

Other payables (non-current) relate to security deposits refundable to the Company's tenants of its investment properties at the end of the lease term.

23. Provisions

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

A provision is recognised for expected warranty claims on machinery 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:

		2022	2021
		$'000	$'000
FRS 37: 84(a)	At 1 January	679	598
FRS 37: 84(b)	Provision charged to profit or loss	295	262
FRS 37: 84(c)	Utilisation of provision	(286)	(181)
FRS 37: 84(a)	At 31 December	688	679

24. Trade payables

		2022	2021
		$'000	$'000
FRS 1: 77	Trade payables to:		
	- Third parties	3,194	2,455
FRS 24: 18, 19(d)	- Related companies	1,451	497
		4,645	2,952

FRS 107: 31
FRS 24: 18

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

25. Leases

FRS 116: 51, 52

Company as a lessee

FRS 116: 59(a)
FRS 116: 59(c)

The Company has lease contracts for land, buildings and motor vehicles. The Company's obligations under these leases are secured by the lessor's title to the leased assets. The Company is restricted from assigning and subleasing the leased assets. There are several lease contracts that include extension options which are further discussed below.

FRS 116: 60

The Company also has certain leases of machinery with lease terms of 12 months or less and leases of office equipment with low value. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

FRS 116: 54

(a) Carrying amounts of right-of-use assets presented within property, plant and equipment

		Leasehold land $'000	Leasehold buildings $'000	Motor vehicles $'000	Total $'000
	At 1 January 2021	5,480	3,127	500	9,107
FRS 116: 53(a)	Depreciation	(280)	(379)	(50)	(709)
FRS 116: 53(j)	At 31 December 2021	5,200	2,748	450	8,398
FRS 116: 53(h)	Additions	-	875	-	875
FRS 116: 53(a)	Depreciation	(298)	(423)	(100)	(821)
FRS 116: 53(j)	At 31 December 2022	4,902	3,200	350	8,452

(b) Lease liabilities

FRS 116: 53(b), 53(g), 58

The carrying amounts of lease liabilities (included under borrowings) and the movements during the year are disclosed in Note 21 and the maturity analysis of lease liabilities is disclosed in Note 29(b).

(c) Amounts recognised in profit or loss

		2022 $'000	2021 $'000
FRS 116: 53(a)	Depreciation of right-of-use assets	821	709
FRS 116: 53(b)	Interest expense on lease liabilities (Note 6)	58	71
	Lease expense not capitalised in lease liabilities		
FRS 116: 53(c)	- Expense relating to short-term leases (included in cost of sales)	15	20
FRS 116: 53(d)	- Expense relating to leases of low-value assets (included in administrative and other expenses)	22	22
	Total (Note 7)	37	42
	Total amount recognised in profit or loss	916	822

(d) Total cash outflow

FRS 116: 53(g)

The Company had total cash outflows for leases of $367,000 (2021: $372,000).

25. Leases (Continued)

(e) Extension options

FRS 116: 59(b)(ii), B50

The Company has several lease contracts that include extension options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Company's business needs. Management exercises significant judgement in determining whether these extension options are reasonably certain to be exercised (Note 3.1).

Company as a lessor

FRS 116: 90-92

The Company has entered into operating leases on its investment properties consisting of a car park and two residential properties (Note 10). These leases are negotiated for terms ranging from two to eight years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The lessee is also required to provide a residual value guarantee on the properties.

Rental income from investment properties is disclosed in Note 5.

FRS 116: 97

The future minimum rental receivable under non-cancellable operating leases contracted for at the reporting period are as follows:

	2022 $'000	2021 $'000
Not later than one year	96	96
Later than one year but not later than five years	390	385
Later than five years	160	288
	646	769

Help tips

(i) Disclosure on leases in a single note or separate section in the financial statements

FRS 116: 52

A lessee shall disclose information about its leases in a single note or separate section in the financial statements. However, there is no need to duplicate certain information that is already presented elsewhere, provided that information is incorporated by cross-reference in a single note or separate section.

(ii) Disclosures by lessee

Required disclosures

FRS 116: 53

FRS 116: 53 requires disclosure of the following information, which users of the financial statements have identified as being most useful to their analysis:

- depreciation charge for right-of-use assets, split by class of underlying asset;
- interest expense on lease liabilities;
- short-term lease expense for such leases with a lease term greater than one month;
- low-value asset lease expense (except for portions related to short-term leases);
- variable lease expense (i.e. for variable lease payments not included in the lease liability);

25. Leases (Continued)

Help tips (Continued)

(ii) Disclosures by lessee (Continued)

Required disclosures (Continued)

- income from subleasing right-of-use assets;
- total cash outflow for leases;
- additions to right-of-use assets;
- gains and losses arising from sale and leaseback transactions; and
- carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.

FRS 116: 54

All of the above disclosures are required to be presented in a tabular format, unless another format is more appropriate. The amounts to be disclosed must include costs that the lessee has included in the carrying amount of another asset during the reporting period.

FRS 116: 53(g)

The standard requires disclosure of the total cash outflow for leases. This includes all lease payments regardless of whether the payments are capitalised as part of lease liabilities. In this illustration, the Company also included the cash outflow related to leases of low-value assets and short-term leases in the disclosure of the total cash outflow.

FRS 116: 55

FRS 116: 55 requires disclosure of the amount of lease commitments for short-term leases when short-term lease commitments at the end of the reporting period are dissimilar to the same period's short-term lease expense (that is otherwise required to be disclosed). This disclosure requirement is not applicable to the Company.

Additional disclosures to satisfy disclosure objective

FRS 116: 59

FRS 116: 59 requires additional qualitative and quantitative information about a lessee's leasing activities necessary to meet the disclosure objective of the standard. This additional information may include, but is not limited to, information that helps users of the financial statements to assess:

- the nature of the lessee's leasing activities;
- future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities:
    - variable lease payments
    - extension options and termination options
    - residual value guarantees
    - leases not yet commenced to which the lessee is committed;
- restrictions or covenants imposed by leases; and
- sale and leaseback transactions.

25. Leases (Continued)

Help tips (Continued)

(ii) Disclosures by lessee (Continued)

Additional disclosures to satisfy disclosure objective (Continued)

Entities would need to exercise judgement in determining the extent of disclosures needed to satisfy the disclosure objective of the standard (i.e. to provide a basis for users to assess the effect of leases on the financial position, financial performance and cash flows of the lessee).

(iii) Right-of-use assets classified as investment property

FRS 116: 56

If right-of-use assets meet the definition of investment property, a lessee shall apply the disclosure requirements in FRS 40. In that case, a lessee is not required to provide the following disclosures:

- depreciation charge for right-of-use assets by class of underlying assets;
- income from subleasing right-of-use assets;
- additions to right-of-use assets; and
- the carrying amount of right-of-use assets at the reporting period by class of underlying asset.

(iv) COVID-19 Related Rent Concessions

In this illustration, the Company is not affected by the related rent concessions.

For disclosures relating to rent concessions provided during the COVID-19 pandemic, please refer to the illustrative disclosures in Appendix C for disclosures on applications of FRS 116 *Leases: COVID-19 Related Rent Concessions beyond 30 June 2021*.

COVID-19 Help tips

As described in Note 2.2, amendments to FRS 116 were issued to provide relief to lessees from applying FRS 116 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic.

The amendment was intended to apply until 30 June 2021, but as the impact to the COVID-19 pandemic is continuing, the period of the application of the practical expedient was extended until 30 June 2022. Many lessors have provided rent concessions to lessees as a result of the COVID-19 pandemic. Rent concessions can include rent holidays or rent reductions for a period of time, possibly followed by increased rent payments in future periods. Applying the requirements in FRS 116 for changes to lease payments, particularly assessing whether the rent concessions are lease modifications and applying the required accounting, could be practically difficult in the current environment. The objective of the amendment is to provide lessees that have been granted COVID-19 related rent concessions with practical relief, while still providing useful information about leases to users of the financial statements.

25. Leases (Continued)

COVID-19 Help tips (Continued)

As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under FRS 116, if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic.

A lessee that applies the practical expedient discloses that it has applied the practical expedient to all rent concessions that meet the conditions for practical expedient or, if not applied to all such rent concessions, information about the nature of the contracts to which it has applied the practical expedient. In addition, a lessee discloses the amount recognised in profit or loss to reflect changes in lease payments that arise from such rent concessions to which the lessee has applied the practical expedient.

26. 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:

	2022 $'000	2021 $'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	32	25

Compensation of key management personnel

FRS 24: 17(a)

	2022 $'000	2021 $'000
Salaries and bonuses	683	520
Employer's contribution to Central Provident Fund	82	52
Other benefits	54	36
	819	608

26. Significant related party transactions (Continued)

Help tips

(i) Definition of related party

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 a 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 group (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 group 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).

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to the parent of the Company.

26. Significant related party transactions (Continued)

Help tips (Continued)

(i) Definition of related party (Continued)

FRS 24: 11

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.

(ii) Definition of key management personnel

FRS 24: 9

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, directly or indirectly, including any director (whether executive or otherwise) of the Company.

(iii) Examples of related party transactions

FRS 24: 21

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

(j) settlement of liabilities on behalf of the entity or by the entity on behalf of another party.

26. Significant related party transactions (Continued)

Help tips (Continued)

(iv) Materiality and nature of related party 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.

(v) Components of key management personnel compensation

FRS 24: 9

Compensation includes all employee benefits (as defined under FRS 19 *Employee Benefits* and FRS 102 *Share-based Payment*) 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.

(vi) Arm's length transactions

FRS 24: 23

Disclosures that related party transactions were made on terms equivalent to those that prevail in arm's length transactions are made only if such terms can be substantiated.

(vii) Categories of disclosures

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;

(f) 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.

27. Commitments

Capital commitments

The Company had commitments of $300,000 (2021: $200,000) relating to the purchase of machinery and other equipment.

Help tips

(i) Lease commitments for short-term leases

FRS 116: 55

FRS 116: 55 requires disclosure of the amount of lease commitments for short-term leases when short-term lease commitments at the end of the reporting period are dissimilar to the same period's short-term lease expense (that is otherwise required to be disclosed).

(ii) Leases not yet commenced to which the lessee is committed

FRS 116: 59(b)(iv)

To meet the disclosure objective of FRS 116, entities may disclose information, among other additional information, to help users of financial statements assess the leases that have not yet commenced but for which the entity (as lessee) has committed to.

An illustrative disclosure is as follows:

The Company has various lease contracts that have not yet commenced as at 31 December 2022. The future lease payments for these non-cancellable lease contracts are $_______ within one year, $_______ within five years and $_______ thereafter.

(iii) Contingencies

Where applicable, include the following illustrative disclosures:

Financial guarantee contract liabilities

During the year, the Company provided financial guarantees to various banks in connection with the bank loans and other banking facilities granted to its related companies. As at the end of the reporting period, the banking facilities granted to the related companies subject to guarantees given to the banks were utilised to the extent of approximately $_______ (2021: $_______). Amounts included in liabilities in respect of the guarantees are disclosed in Note xx to the financial statements.

Legal claim

On [date], a customer has commenced an action against the Company in respect of products claimed to be sub-standard. The estimated payout is $_______ should the action be successful. A trial date has not yet been set and therefore it is not practicable to state the timing of any payment. The Company has been advised by its legal counsel that it is possible, but not probable, that the action will succeed and accordingly no provision for any liability has been made in these financial statements.

28. Fair value of assets and liabilities

(a) Fair value hierarchy

FRS 113: 72 The Company categorises fair value measurements using a fair value hierarchy that is dependent on the valuation inputs used as follows:

FRS 113: 76
- Level 1 – Quoted prices (unadjusted) in active market for identical assets or liabilities that the Company can access at the measurement date,

FRS 113: 81
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and

FRS 113: 86
- Level 3 – Unobservable inputs for the asset or liability.

FRS 113: 73 Fair value measurements that use inputs of different hierarchy levels are categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

(b) Assets measured at fair value

FRS 113: 93(a), (b) The following table shows an analysis of each class of assets measured at fair value at the reporting date:

	2022 $'000			
	Fair value measurements at the reporting date using			
	Quoted prices in active markets for identical instruments (Level 1)	Significant observable inputs other than quoted prices (Level 2)	Significant unobservable inputs (Level 3)	Total
Financial assets:				
At fair value through profit or loss - equity securities (quoted) (Note 12)	210	-	-	210
At fair value through other comprehensive income - equity securities (unquoted) (Note 12)	-	-	656	656
Financial assets as at 31 December 2022	210	-	656	866
Non-financial assets:				
Investment properties (Note 10)				
- Residential	-	-	3,000	3,000
- Car park	-	800	-	800
Non-financial assets as at 31 December 2022	-	800	3,000	3,800

28. Fair value of assets and liabilities (Continued)

(b) Assets measured at fair value (Continued)

FRS 113: 93(a), (b)

	2021 $'000 Fair value measurements at the reporting date using			
	Quoted prices in active markets for identical instruments (Level 1)	**Significant observable inputs other than quoted prices (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Financial assets:				
At fair value through profit or loss - equity securities (quoted) (Note 12)	177	-	-	177
At fair value through other comprehensive income - equity securities (unquoted) (Note 12)	-	-	523	523
Financial assets as at 31 December 2021	177	-	523	700
Non-financial assets:				
Investment properties (Note 10)				
- Residential	-	-	2,800	2,800
- Car park	-	650	-	650
Non-financial assets as at 31 December 2021	-	650	2,800	3,450

(c) Level 2 fair value measurements

FRS 113: 93(d)

The valuation of investment properties – car park is based on comparable market transactions that consider sales of similar properties that have been transacted in the open market.

28. Fair value of assets and liabilities (Continued)

(d) Level 3 fair value measurements

(i) Information about significant unobservable inputs used in Level 3 fair value measurements

FRS 113: 93(d)

The following table shows the information about fair value measurements using significant unobservable inputs (Level 3):

Description	Valuation techniques	Unobservable inputs	Range (weighted average) 2022	Range (weighted average) 2021
At fair value through other comprehensive income - equity securities (unquoted)	Discounted cash flow	Cost of equity	5% to 10% (7.1%)	5% to 10% (7.1%)
		Dividend yield	3% to 7% (4.2%)	3% to 7% (4.2%)
		Discount for lack of marketability	5% to 15% (6.3%)	5% to 15% (6.3%)
Investment properties - residential	Market comparable approach	Yield adjustments based on management's assumptions*	10% to 22% (12%)	10% to 22% (12%)

*The yield adjustments are made for any difference in the nature, location or condition of the specific property.

FRS 113: 93(h)(ii)

For unquoted equity securities, a significant increase (decrease) in the expected dividend yield would result in a significantly higher (lower) fair value measurement. A significant increase (decrease) in discount for lack of marketability would result in a significantly lower (higher) fair value measurement. A change in assumption used for dividend yield may warrant a directionally opposite change in assumption for discount for lack of marketability.

If the discount for lack of marketability increase by 3% to 8% (2021: 3% to 8%), the carrying amount of the unquoted equity securities would decrease by approximately $49,000 (2021: $36,000).

28. Fair value of assets and liabilities (Continued)

(d) Level 3 fair value measurements (Continued)

(ii) Movements in Level 3 assets measured at fair value

FRS 113: 93(e)

The following table presents the reconciliation for all assets measured at fair value based on significant unobservable inputs (Level 3):

	2022 $'000		
	Fair value measurements using significant unobservable inputs (Level 3)		
	Unquoted equity securities	**Investment properties - residential**	**Total**
At 1 January 2022	523	2,800	3,323
Net fair value gains recognised in profit or loss	-	200	200
Net fair value gains recognised in other comprehensive income	133	-	133
At 31 December 2022	656	3,000	3,656

	2021 $'000		
	Fair value measurements using significant unobservable inputs (Level 3)		
	Unquoted equity securities	**Investment properties - residential**	**Total**
At 1 January 2021	475	2,695	3,170
Net fair value gains recognised in profit or loss	-	105	105
Net fair value gains recognised in other comprehensive income	48	-	48
At 31 December 2021	523	2,800	3,323

(iii) Valuation policies and procedures

FRS 113: 93(g)

Each year, the directors of the Company decide which external valuer to be responsible for the external valuations of the Company's investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Management has discussions with the valuer on the valuation assumptions and valuation results when the valuation is performed at each annual reporting date.

(e) Assets and liabilities not measured at fair value

Cash and cash equivalents and other payables

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

28. Fair value of assets and liabilities (Continued)

(e) Assets and liabilities not measured at fair value (Continued)

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 the holding company and bank borrowings

The carrying amounts of loan to the 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.

29. Financial risk management

FRS 107: 7, 31
FRS 107: 31-33
FRS 107 IG: 15

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

The directors review and agree 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.

(a) 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's exposure to credit risk arises primarily from trade and other receivables and loan to the holding company. For other financial assets (including investment securities and cash), the Company minimises credit risk by dealing exclusively with high credit rating counterparties.

The Company has adopted a policy of only dealing with creditworthy counterparties. The Company performs ongoing credit evaluation of its counterparties' financial condition and generally do not require a collateral.

The Company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period.

FRS 107: 35F(b)

The Company has determined the default event on a financial asset to be when internal and/or external information indicates that the financial asset is unlikely to be received, which could include default of contractual payments due for more than 60 days, default of interest due for more than 30 days or there is significant difficulty of the counterparty.

29. Financial risk management (Continued)

(a) Credit risk (Continued)

FRS 107: 35B(a)
FRS 107: 35F

To minimise credit risk, the Company has developed and maintained the Company's credit risk gradings to categorise exposures according to their degree of risk of default. The credit rating information is supplied by publicly available financial information and the Company's own trading records to rate its major customers and other debtors. The Company considers available reasonable and supportive forward-looking information which includes the following indicators:

- Internal credit rating
- External credit rating
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtor's ability to meet its obligations
- Actual or expected significant changes in the operating results of the debtor
- Significant increases in credit risk on other financial instruments of the same debtor
- Significant changes in the expected performance and behaviour of the debtor, including changes in the payment status of debtors in the group and changes in the operating results of the debtor.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making contractual payment.

The Company determined that its financial assets are credit-impaired when:

- There is significant difficulty of the debtor
- A breach of contract, such as a default or past due event
- It is becoming probable that the debtor will enter bankruptcy or other financial reorganisation
- There is a disappearance of an active market for that financial asset because of financial difficulty

The Company categorises a receivable for potential write-off when a debtor fails to make contractual payments more than 120 days past due. Financial assets are written off when there is evidence indicating that the debtor is in severe financial difficulty and the debtor has no realistic prospect of recovery.

The Company's current credit risk grading framework comprises the following categories:

Category	**Definition of category**	**Basis for recognising expected credit loss (ECL)**
I	Counterparty has a low risk of default and does not have any past-due amounts.	12-month ECL
II	Amount is >30 days past due or there has been a significant increase in credit risk since initial recognition.	Lifetime ECL – not credit-impaired
III	Amount is >60 days past due or there is evidence indicating the asset is credit-impaired (in default).	Lifetime ECL – credit-impaired
IV	There is evidence indicating that the debtor is in severe financial difficulty and the debtor has no realistic prospect of recovery.	Amount is written off

29. Financial risk management (Continued)

(a) Credit risk (Continued)

The table below details the credit quality of the Company's financial assets, as well as maximum exposure to credit risk by credit risk rating categories:

FRS 107: 35M, 35N
FRS 107: 36(a)

	Note	Category	12-month or lifetime ECL	Gross carrying amount $'000	Loss allowance $'000	Net carrying amount $'000
31 December 2022						
Trade receivables	16	Note 1	Lifetime ECL (simplified)	9,840	(642)	9,198
Other receivables	14	I	12-month ECL	165	-	165
Loan to the holding company	13	I	12-month ECL	1,055	-	1,055
					(642)	
31 December 2021						
Trade receivables	16	Note 1	Lifetime ECL (simplified)	8,295	(529)	7,766
Other receivables	14	I	12-month ECL	162	-	162
Loan to the holding company	13	I	12-month ECL	2,075	-	2,075
					(529)	

<u>Trade receivables</u> (Note 1)

For trade receivables, the Company has applied the simplified approach in FRS 109 to measure the loss allowance at lifetime ECL. The Company determines the ECL by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of trade receivables is presented based on their past due status in terms of the provision matrix.

29. Financial risk management (Continued)

(a) Credit risk (Continued)

	Trade receivables					
	Days past due					
	Not past due	≤30 days	31-60 days	61-90 days	>90 days	Total
	$'000	$'000	$'000	$'000	$'000	$'000
31 December 2022						
ECL rate	0.5%	3%	10%	15%	30%	
Estimated total gross carrying amount at default	4,680	1,784	1,428	1,078	870	9,840
ECL	(23)	(54)	(143)	(161)	(261)	(642)
						9,198
31 December 2021						
ECL rate	0.5%	3.5%	11%	15.5%	32%	
Estimated total gross carrying amount at default	4,365	1,382	970	928	650	8,295
ECL	(22)	(48)	(107)	(144)	(208)	(529)
						7,766

Information regarding loss allowance movement of trade receivables is disclosed in Note 16.

Excessive risk concentration

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.

Exposure to credit risk

FRS 107: 34(c)

The Company has no significant concentration of credit risk other than those balances with holding company and related companies comprising 30% (2021: 29%) of trade receivables. The Company has credit policies and procedures in place to minimise and mitigate its credit risk exposure.

Other receivables and loan to the holding company

The Company assessed the latest performance and financial position of the counterparties, adjusted for the future outlook of the industry in which the counterparties operate in, and concluded that there has been no significant increase in the credit risk since the initial recognition of the financial assets. Accordingly, the Company measured the impairment loss allowance using 12-month ECL and determined that the ECL is insignificant.

29. Financial risk management (Continued)

(a) Credit risk (Continued)

Help tips

(i) Credit risk disclosures

The credit risk disclosures shall enable users of financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows. To achieve this objective, credit risk disclosures shall provide:

(a) information about an entity's credit risk management practices and how they relate to the recognition and measurement of ECL, including the methods, assumptions and information used to measure ECL;

(b) the quantitative and qualitative information that allows users of financial statements to evaluate the amounts in the financial statements arising from ECL, including changes in the amount of ECL and the reasons for those changes; and

(c) information about an entity's credit risk exposure (i.e. the credit risk inherent in an entity's financial assets and commitments to extend credit) including significant credit risk concentrations.

An entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to other statements, such as a management commentary or risk report that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.

For disclosures requirement above, an entity shall consider how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of the financial statements need additional explanations to evaluate the quantitative information disclosed.

(ii) Financial assets that are credit-impaired

In this illustration, the Company does not have financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and financial assets that are purchased or originated credit-impaired.

If an entity has such financial assets, the entity shall disclose:

FRS 107: 35H (a) the changes in the loss allowance and the reasons for those changes, provide by class of financial instrument, a reconciliation from the opening balance to the closing balance of the loss allowance, in a table, showing separately the changes during the period;

FRS 107: 35H(c) (b) the total amount of undiscounted expected credit losses at initial recognition on financial assets initially recognised during the reporting period; and

FRS 107: 35M (c) the gross carrying amount by credit risk rating category.

29. Financial risk management (Continued)

(a) Credit risk (Continued)

Help tips (Continued)

(iii) Collateral and other credit enhancements

In this illustration, the Company does not have any collateral and other credit enhancement which affects the amounts arising from ECL.

FRS 107: 35K

If an entity has any collateral and other credit enhancement which affects the amounts arising from ECL, the entity shall disclose by class of financial instrument:

(a) a narrative description of collateral held as security and other credit enhancements, including:

(i) a description of the nature and quality of the collateral held;

(ii) an explanation of any significant changes in the quality of that collateral or credit enhancements as a result of deterioration or changes in the collateral policies of the entity during the reporting period; and

(iii) information about financial instruments for which an entity has not recognised a loss allowance because of the collateral.

(b) quantitative information about the collateral held as security and other credit enhancements (for example, quantification of extent to which collateral and other credit enhancements mitigate credit risk) for financial assets that are credit-impaired at the reporting date.

(iv) Rebuttable presumption

FRS 107: 35F(a)(ii)

In this illustration, the Company has applied the presumption in FRS 109: 5.5.11 that there have been significant increases in credit risk since initial recognition when financial assets are more than 30 days past due. If an entity has rebutted the presumption, the entity has to disclose how an entity determine whether credit risk of financial instruments has increased significantly since initial recognition.

29. Financial risk management (Continued)

(a) Credit risk (Continued)

Help tips for financial reporting in uncertain times

(i) Expected credit losses

Large-scale business disruptions may give rise to liquidity issues for some entities and consumers. Changes in credit quality of loan portfolios and trade receivables (amongst other items) as a result of the COVID-19 in prior years and its declining impact in 2022 in many countries may have a significant impact on an entity's ECL measurement.

A number of regulators have published guidance on the regulatory and accounting implications of the impact of the COVID-19 pandemic. In March 2020, the International Accounting Standards Board (IASB) published for educational purposes, *Accounting for expected credit losses applying IFRS 9 Financial Instruments in the light of current uncertainty resulting from the COVID-19 pandemic* to help support the consistent application of accounting standards on ECLs. IFRS 9 does not set bright lines or a mechanistic approach to determining when there is a significant increase in credit risk (SICR), nor does it dictate the exact basis on which entities should determine forward-looking scenarios to measure ECLs.

Entities should consider the following in updating their ECL calculations due to the various macroeconomic events and factors, including COVID-19 pandemic:

- the use of reasonable and supportable information. Given the unprecedented circumstances, it is critical that entities provide transparent disclosure of the critical assumptions and judgements used to measure the ECL;
- re-segmentation of loan portfolios or groups or receivables;
- individual and collective assessment of loans, receivables and contract assets. In order to accelerate the detection of such changes in credit quality not yet detected at an individual level, it may be appropriate to adjust ratings and the probabilities of default on a collective basis, considering risk characteristics such as the industry or geographical location of the borrowers; and
- changes in payment terms. If payment terms are extended or reduced in light of the current economic circumstances, the terms and conditions of the extension or reduction will have to be assessed to determine their impacts on the ECL estimate.

The ECL calculation and the measurement of significant fluctuation in credit risk both incorporate forward-looking information using a range of macroeconomic scenarios and, as such, entities need to reassess the inputs to their provision matrix used to calculate ECLs. Uncertainties in market trends and economic conditions may persist due to the various macroeconomic events and factors including COVID-19 pandemic, which may impact actual results which differ materially from the estimates in ECL.

It is important that entities make adequate disclosures concerning their assessment of ECLs. It may be that entities' ECLs are not impacted by the various macroeconomic events and factors including COVID-19. However, given the subjective nature of ECL calculations, it would be appropriate for entities to disclose the inputs into the calculation and to consider a sensitivity analysis to highlight the impact of changes to inputs on its ECL estimates.

Appendix D example 3 provides illustrative disclosures on the revision of assumptions used in provision matrix.

29. Financial risk management (Continued)

(a) Credit risk (Continued)

Help tips for financial reporting in uncertain times (Continued)

(ii) Concentrations of risks

Entities with concentrations of risk may face greater risk of loss than other entities. FRS 107: 34(c) requires that concentration of risk should be disclosed if not otherwise apparent from other risk disclosures provided. Therefore, entities should consider including the following information:

- a description of how management determines concentrations of risk;
- a description of the shared characteristic that identifies each concentration. For instance, the shared characteristic may refer to geographical distribution of counterparties by groups of countries, individual countries or regions within countries and/or by industry; and
- the amount of the risk exposure associated with all financial instruments sharing that characteristic.

Entities that have identified concentrations of activities in areas or industries affected by the various macroeconomic events and factors including COVID-19 pandemic and have not previously disclosed the concentration because they did not believe that the entity was vulnerable to the risk of a near-term severe impact, should now reconsider making such a disclosure.

29. Financial risk management (Continued)

(b) 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 finances its working capital requirements through a combination of funds generated from operations and bank borrowings. The directors are satisfied that funds are available to finance the operations of the Company.

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.

		2022		
	Carrying amount $'000	Contractual cash flows $'000	One year or less $'000	One to five years $'000
Financial assets				
Loan to the holding company	1,055	1,097	-	1,097
Trade receivables	9,198	9,198	9,198	-
Other receivables	165	177	-	177
Cash and short-term deposits	7,093	7,093	7,093	-
Total undiscounted financial assets	17,511	17,565	16,291	1,274
Financial liabilities				
Trade payables	4,645	4,645	4,645	-
Other payables	430	432	406	26
Borrowings (excluding lease liabilities)	200	200	200	-
FRS 116: 58 Lease liabilities (Note 25)	1,775	2,130	532	1,598
Total undiscounted financial liabilities	7,050	7,407	5,783	1,624
Total net undiscounted financial assets/ (financial liabilities)	10,461	10,158	10,508	(350)

		2021		
	Carrying amount $'000	Contractual cash flows $'000	One year or less $'000	One to five years $'000
Financial assets				
Loan to the holding company	2,075	2,117	1,020	1,097
Trade receivables	7,766	7,766	7,766	-
Other receivables	162	177	-	177
Cash and short-term deposits	3,776	3,776	3,776	-
Total undiscounted financial assets	13,779	13,836	12,562	1,274
Financial liabilities				
Trade payables	2,952	2,952	2,952	-
Other payables	371	373	347	26
Borrowings (excluding lease liabilities)	2,476	2,476	2,476	-
Lease liabilities (Note 25)	1,172	1,322	331	991
Total undiscounted financial liabilities	6,971	7,123	6,106	1,017
Total net undiscounted financial assets	6,808	6,713	6,456	257

29. Financial risk management (Continued)

(b) Liquidity risk (Continued)

Help tips

Financial guarantees issued and accounted for under FRS 109 *Financial Instruments*

FRS 107: AGB11C(c)

FRS 107 requires such issued financial guarantee contracts to be recorded in the contractual maturity analysis based on the maximum amount guaranteed.

They are to be allocated to the earliest date they can be drawn down, irrespective of whether it is likely that those guarantees will be drawn or the amount that is expected to be paid.

Help tips for financial reporting in uncertain times

Although the negative impact of COVID-19 is gradually declining in many countries, liquidity risk might still be dependent on the current economic environment in which entities are operating. Therefore, it is expected that the disclosures required under FRS 107 in this area will reflect any significant changes in the liquidity position as a result of the COVID-19 pandemic and its development and changes in the current economic environment. Entities should be mindful that this disclosure is consistent with their assessment of the going concern assumption.

(c) 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 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 (2021: 50) basis points higher/lower with all other variables held constant, the Company's profit before tax would have been $35,000 (2021: $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.

29. Financial risk management (Continued)

(c) Market risk (Continued)

(i) Interest rate risk (Continued)

Help tips

(i) Fixed and variable rate financial instruments

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

Illustrative disclosure

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

	2022	*2021*
	$'000	*$'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 2021 and 2022 and/or 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).

(ii) Interest rate benchmark reforms

In this illustration, the Company is not affected by the interest rate benchmark reforms. Affected entities will need to explain their accounting policies (upon adoption of the amendments made to FRS 109 or FRS 39) and provide the disclosures added to FRS 107. This includes entities that have exposure to interest rates where the interest rates are dependent on interbank offered rates (IBORs); and these IBORs are subject to interest rate benchmark reform.

Please refer to FRS 107 paragraph 24I and 24J for additional disclosures related to interest rate benchmark reform and ISCA FRB 9 *Accounting Implications of the Interest Rate Benchmark Reform in Singapore* for accounting guidance and key considerations on how to address the financial reporting implications of the IBOR reform.

29. Financial risk management (Continued)

(c) Market risk (Continued)

(ii) Foreign currency risk

FRS 107: 33

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: 34

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

	2022		2021	
	USD	EUR	USD	EUR
	$'000	$'000	$'000	$'000
Financial assets				
Trade receivables	2,998	-	1,976	-
Cash and cash equivalents	1,417	1,352	1,395	1,275
	4,415	1,352	3,371	1,275
Financial liabilities				
Trade payables	(2,679)	(523)	(2,133)	(210)
Other payables	(73)	-	(67)	-
	(2,752)	(523)	(2,200)	(210)
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)	
	2022	2021
	$'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: 6

30. Financial instruments by category

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

FRS 107: 8

	2022 $'000	2021 $'000
Financial assets measured at amortised cost		
Loan to the holding company (Note 13)	1,055	2,075
Trade receivables (Note 16)	9,198	7,766
Other receivables (Note 14)	165	162
Cash and short-term deposits (Note 17)	7,093	3,776
Total financial assets measured at amortised cost	17,511	13,779

FRS 107: 8

	2022 $'000	2021 $'000
Financial liabilities measured at amortised cost		
Trade payables (Note 24)	4,645	2,952
Other payables (Note 22)	430	371
Borrowings (Note 21)	200	2,476
Total financial liabilities measured at amortised cost	7,050	6,971

Help tips

FRS 32: AG12

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

31. 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 to the objectives, policies or processes during the financial years ended 31 December 2022 and 31 December 2021.

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, if 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 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 2022 and 2021 were as follows:

	2022	***2021***
	$'000	***$'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 2021.

32. Events occurring after the reporting period

FRS 10: 21

On 2 May 2023, 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 2022. These financial statements do not reflect this dividend, which will be accounted for in the financial year ending 31 December 2023.

Help tips

An entity is required to disclose the nature of all material non-adjusting events that took place subsequent to the financial year-end. An estimate of the corresponding financial effect should be made, or in the event that the estimate cannot be made, a statement stating this fact should be disclosed.

Help tips for financial reporting in uncertain times

As the impact of COVID-19 is declining in many countries, many governments have been curtailing the supportive measures they implemented in prior years to address the resulting public health issues and the economic impact. At the same time, in some jurisdictions, governments may re-introduce certain restrictions that had earlier been lifted. Entities will again need to assess if they are affected, or expect to be impacted, by actions taken after the end of their reporting period. A critical judgement and evaluation management needs to make is whether and, if so, what these events provide of evidence of conditions that existed at the end of the reporting period for the entity’s activities or their assets and liabilities.

If management concludes an event is a non-adjusting event, but the impact of it is material, the entity is required to disclose the nature of the event and an estimate of its financial effect unless it is impractical to do so.

Areas that an entity should consider disclosing in its subsequent events note may include:

- the curtailment of the measures taken in prior years to minimise the impact of the COVID-19 pandemic and to continue operations;
- that the entity continues to monitor the COVID-19 pandemic situation and will take further action as necessary in response to the economic disruption;
- any issuance of debt or equity or refinancing undertaken after reporting. Entities should disclose any amendments or waivers of covenants agreed by lenders to accommodate COVID-19 related concerns;
- reorganisations to reduce the impact of the COVID-19 pandemic and whether any disposals of business units have been decided;
- any decisions made to suspend or alter dividends made after considering the inherent uncertainty surrounding the financial impact of the COVID-19 pandemic; and
- whether the COVID-19 outbreak may continue to cause disruption to economic activity and whether there could be further adverse impacts on revenue.

33. Comparative information

Help tips

(i) Illustrative disclosure on reclassification of expenses

FRS 1: 38, 41

During 2022, 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, $____was reclassified from 'administrative and other expenses' to 'selling and distribution expenses'.

Since the amounts are reclassifications within 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.

(ii) 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.

(iii) Entities with unequal comparative financial periods

The financial statements for 2021 cover from period [ ] to [ ].

(iv) Change in the financial year end

FRS 1: 36

If an 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:

(a) the reason for using a longer or shorter period; and

(b) the fact that amounts presented in the financial statements are not entirely comparable.

An illustrative disclosure is as follows:

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].

34. Authorisation of financial statements for issue

FRS 10: 17

The financial statements for the financial year ended 31 December 2022 were authorised for issue in accordance with a resolution of the Board of Directors of the Company on 30 May 2023.

ABC PTE. LTD.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2022

(Illustrating the analysis of expenses by nature)

	Note	2022 $'000	2021 $'000
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 materials 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, representing total comprehensive income for the year			

Illustrative Disclosures Relating to the Adoption of Amendments to FRS 37 *Provisions, Contingent Liabilities and Contingent Assets:* Onerous Contracts – Cost of Fulfilling a Contract

Summary of significant accounting policies

Adoption of new and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except that in the current financial year, the Company has adopted all the new and amended standards which are relevant to the Company and are effective for annual financial periods beginning on or after 1 January 2022.

Other than the amendments to FRS 37 *Provisions, Contingent Liabilities and Contingent Assets:* Onerous Contracts – Cost of Fulfilling a Contract, the application of these amendments and interpretations does not have a material effect on the Company's financial statements.

FRS 8: 28
FRS 37:
68A, 94A

The Company has adopted FRS 37 *Provisions, Contingent Liabilities and Contingent Assets:* Onerous Contracts – Cost of Fulfilling a Contract from 1 January 2022. This resulted in a change in accounting policy for performing an onerous contracts assessment. Previously, the Company included only incremental costs to fulfil a contract when determining whether that contract was onerous. The revised policy is to include both incremental costs and an allocation of other direct costs.

In accordance with the transitional provisions, the amendments apply prospectively to existing contracts for which the Company had not fulfilled all of its obligations on the date of initial application. The cumulative effect of applying the amendments was recognised as an adjustment to the opening balance of retained earnings. Comparative information was not restated.

The impact on adoption is summarised below:

Impact on items in the statement of profit or loss

	31 December 2022 $'000	1 January 2022 $'000
Deferred tax asset		
Provisions (non-current)		
Provisions (current)		
Retained earnings		

Impact on items in the statement of profit or loss

	2022 $'000
Cost of sales	
Tax expense	

FRS 8: 28(f)(ii)

There was no material impact on other comprehensive income or statement of cash flows for the financial year ended 31 December 2022 as a result of applying the amendments.

Illustrative Disclosures Relating to the Adoption of Amendments to FRS 37 *Provisions, Contingent Liabilities and Contingent Assets:* Onerous Contracts – Cost of Fulfilling a Contract (Continued)

Provisions

Provision for onerous contracts

FRS 37: 66, 68, 68A, 69

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract, which is determined based on the incremental costs of fulfilling the obligation under the contract and an allocation of other costs directly related to fulfilling the contract. Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract.

Deferred tax assets

FRS 12: 81(g)(ii)

Movements in deferred tax assets during the financial year were as follows:

	At 1 January 2021	Recognised in profit or loss (Note 8)	At 31 December 2021	Adjustment on initial application of amendments to FRS 37	Recognised in profit or loss (Note 8)	At 31 December 2022
	$'000	$'000	$'000	$'000	$'000	$'000
Provision for onerous contracts						

Provisions

	Onerous contracts $'000
At 1 January 2022	
Adjustment on initial application of amendments to FRS 37	
Provision made during the year	
Provision used during the year	
Provision reversed during the year	
Unwind of discount	
Non-current	
Current	

FRS 37: 85(a)

In prior years, a provision of $_____ was recognised for certain sales contracts as the estimated unavoidable incremental costs of meeting the obligations exceeded the economic benefits expected to be received.

In 2022, the Company adopted the amendments to FRS 37 and included an allocation of other costs, which are directly related to fulfilling the sales contracts. This has resulted in an increased onerous contract provision amounting to $_________ as at 1 January 2022.

During 2022, due to rising inflation, the Company expected an increase in the cost to fulfil certain sales contracts and recognised a provision of $___________.

Illustrative Disclosures Relating to the Adoption of Amendments to FRS 37 *Provisions, Contingent Liabilities and Contingent Assets:* Onerous Contracts – Cost of Fulfilling a Contract (Continued)

Help tips

If the provision for onerous contracts involves significant estimation uncertainty, FRS 1: 125 requires disclosure of information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

FRS 1: 129 requires an entity to present the disclosures in FRS 1: 125 in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are: (a) the nature of the assumption or other estimation uncertainty; (b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity; (c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and (d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

Illustrative Disclosures Relating to Rent Concessions – for a Lessee that Applies Practical Expedient

Summary of significant accounting policies

Adoption of new and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except that in the current financial year, the Company has adopted all the new and amended standards which are relevant to the Company and are effective for annual financial period beginning on 1 January 2022. Other than the amendment to FRS 116 *Leases*: Covid-19-Related Rent Concessions beyond 30 June 2021, the application of these amendments to standards and interpretations does not have a material effect on the financial statements.

FRS 116: 46B The Company has adopted the further amendment to FRS 116 which was issued to extend the scope of the rent concessions to include payments originally due on or before 30 June 2022.

FRS 116: 60A The Company has applied this practical expedient to all property leases. As a result of applying the practical expedient, rent concessions of $_________ (Note X) was recognised as negative variable lease payments (i.e. reduction in the rental expenses) in the profit or loss during the current year.

Summary of significant accounting policies

Leases

FRS 116: 60A(a) The Company has applied the amendments to FRS 116 *Leases*: Covid-19-Related Rent Concessions. The Company applies the practical expedient allowing it not to assess whether a rent concession related to COVID-19 is a lease modification. The Company applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Company chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Company assesses whether there is a lease modification.

Profit before tax

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

	2022 $'000	**2021 $'000**
Direct operating expenses arising from investment properties		
Employee benefits expense		
Impairment loss on financial assets		
Loss/(gain) on disposal of property, plant and equipment		
Net foreign exchange loss/(gain)		
Lease expense		
Reversal of write-down of inventories		
Sales and marketing expense		
Commission expense		

FRS 116: 60A(b) Included within lease expense are COVID-19 related rent concessions received from lessors of $_________ to which the Company applied the practical expedient as disclosed in Note X.

Borrowings

FRS 7: 44A-44D A reconciliation of liabilities arising from financing activities is as follows:

	1 January 2022	Cash flows	Non-cash changes			31 December 2022
			Rent concession	Accretion of interests	Other	
	$'000	$'000	$'000	$'000	$'000	$'000
Lease liabilities						

Illustrative Disclosures Relating to Financial Reporting in Uncertain Times

The COVID-19 outbreak and the measures taken to contain the spread of the pandemic, the Ukraine - Russia conflict, inflation and natural disasters have resulted in significant impact to business activities and high level of uncertainty to global economic prospects. Entities need to consider the impact of the various macroeconomic events and factors on the measurement and recognition of assets and liabilities, income and expenses, and the potential impact on going concern amongst other considerations. Preparing financial statements for the year ended 31 December 2022 is expected to continue to involve more judgement and estimation uncertainties.

Given the evolving nature of COVID-19 and the uncertainties that arise from the various macroeconomic events and factors, it is imperative for entities to provide adequate and transparent disclosures on the key assumptions and judgements taken, to enable users of financial statements to understand how the entity has been affected to date, and also how this might affect their future performance and what risks they remain exposed to.

ACRA has issued Financial Reporting Practice Guidance No. 1 of 2022 on *Areas of Review Focus for FY2022 Financial Statements* under ACRA's Financial Reporting Surveillance Programme which highlight key areas that directors should pay close attention to when reviewing upcoming financial statements.

This Appendix includes illustrative disclosures on areas that may be impacted due to the various macroeconomic events. These illustrative disclosures are not exhaustive, and their applicability depends on the facts and circumstances of each entity. Entities should tailor their disclosures according to their specific facts and circumstances.

Example 1	Material uncertainty about the entity's ability to continue as a going concern (which is specifically impacted by COVID-19 and not other factors) and going concern assumption remains appropriate
Example 2	Assumptions used and judgements made in expected credit loss calculation
Example 3	Revision of assumptions used in provision matrix

Illustrative Disclosures Relating to Financial Reporting in Uncertain Times (Continued)

Example 1 – Material uncertainty about the entity's ability to continue as a going concern (which is specifically impacted by COVID-19 and not other factors) and going concern assumption remains appropriate

Summary of significant accounting policies

Basis of preparation

FRS 1: 25, 26

The COVID-19 pandemic has persisted in 2022. The resulting impact of the pandemic and the measures taken to contain the pandemic have continued to create a high level of uncertainty to global economic prospects and this has negatively impacted the Company's operations and its financial performance for the financial year.

The Company reported a net loss of $_________ and an operating cash outflow of $_________ for the financial year ended 31 December 2022. As at 31 December 2022, the Company's current liabilities exceeded its total assets by $_________. This arises from decrease in revenue due to lower demand for machinery and machinery parts as well as disruption to the production and supply chain. An impairment on trade receivables of $_________ was recognised due to decline in repayment ability of certain debtors.

In response, the Company has taken the following actions:

- obtained waiver of loan covenants from the bank on [date];
- renegotiated property rents;
- reduced non-essential capital expenditure and deferring discretionary spending; and
- cancelled dividend payouts.

However, there is still significant uncertainty over the future development of the outbreak and how it would impact the Company's business and consumer demand for its products. The Company has prepared financial forecasts for the next twelve months from the date of authorisation of the financial statements taking into consideration COVID-19's estimated impact on the business. Given the current volatility of the situation and based on the Company's liquidity position as at the date of authorisation of these financial statements, barring any unforeseen circumstances, the Company may need additional financing to meet its obligations. The Company is currently in discussion with its bankers on additional financing arrangements.

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 and the Company may not realise its assets and settle its liabilities in the ordinary course of business at the amounts recorded in the financial statements.

These financial statements have been prepared on a going concern basis and do not include any adjustments to the carrying amounts and classification of assets, liabilities and reported expenses that may otherwise be required if the going concern basis was not appropriate.

Help tips for financial reporting in uncertain times

SSA 570: 22

If the auditor concludes that management's use of the going concern basis of accounting is appropriate but a material uncertainty exists, and the auditor determines that adequate disclosure about the material uncertainty is made in the financial statements, the auditor can express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to draw attention to the relevant note in the financial statements and state that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter. Illustrations of auditor's reports relating to going concern are available in the Appendix of SSA 570 (Revised).

Illustrative Disclosures Relating to Financial Reporting in Uncertain Times (Continued)

Example 2 – Assumptions used and judgements made in expected credit loss calculation

Significant accounting judgements and estimates

Provision for expected credit losses of trade receivables

The level of estimation and judgement used in the ECL calculation has increased as a result of [•] (to specify e.g. COVID-19 outbreak). The Company has considered the impact of [•] on its customers and grouped them based on shared credit risk characteristics. Separate provision matrices are applied to each customer groupings and the historical loss rates are adjusted to reflect the current and forward-looking information.

In calculating the ECL rates, the Company has considered the volatility of the forward-looking macroeconomic factors affecting the ability of the customers to repay their debts and the probabilities assigned to each scenario are disclosed in Note X.

Illustrative Disclosures Relating to Financial Reporting in Uncertain Times (Continued)

Example 3 – Revision of assumptions used in provision matrix

Financial risk management

Credit risk

FRS 109: B5.5.5

The Company groups its customers based on shared credit risk characteristics and applies different provision matrices to each customer groupings. The Company considered that [customer segment x] was more adversely impacted by [•] as compared to other customer segments and accordingly, further segmented this group of receivables into a different group when applying the provision matrix.

	Trade receivables					
	Days past due					
	Not past due $'000	≤ 30 days $'000	31-60 days $'000	61-90 days $'000	>90 days $'000	Total $'000
31 December 2022						
Customer segment 1						
ECL rate						
Estimated total gross carrying amount at default						
ECL						
Customer segment 2						
ECL rate						
Estimated total gross carrying amount at default						
ECL						
Customer segment 3						
ECL rate						
Estimated total gross carrying amount at default						
ECL						

Credit-impaired receivables

The Company has identified a group of receivables that are credit-impaired due to significant financial difficulties of the customers arising from [•].

FRS 107: 35H, 35M

	2022 **$'000**
Gross carrying amount	
Allowance for expected credit losses	

Help tips for financial reporting in uncertain times

The ECL rates should reflect the current economic conditions as well as forecast of future economic conditions, provided there is availability of reasonable and supportable information. This step particularly involves significant judgement. Entities need to prima facie identify the relevant macroeconomic factors such as GDP, unemployment rate, inflation, etc. that may impact the loss rates of a particular segment of trade receivables and then adjust the historical loss rates to reflect the current and future economic conditions. Entities may also consider using statistical techniques to determine the loss rates. The standard does not specifically require the use of complex analysis and relatively simple models may also be sufficient if the results from such models are consistent with the requirements of the standard. Further, an entity may compute the impact of such forward-looking forecasts under various scenarios and compute the adjusted loss rates by applying probability weights to each scenario.

Practically, entities must be mindful of the fact that different pools of trade receivables would be impacted by different macroeconomic factors and it may be likely for more than one factor to have an impact on the loss rates. Thus, using a blanket assumption or overlay without considering the nature and risk characteristic of the debtors would not be entirely appropriate.

Contributors:

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

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Contributors:

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