

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Advanced Financial Reporting (AFF)

EXAMINATION DATE: 3 December 2024

Section 1

General comments

The overall performance of the Advanced Financial Reporting (AFF) December 2024 examination falls short of expectations. Most of the Candidates underperformed for **Question 1 (b)** (independent proof for the Group's retained earnings) and **Question 4** (cash-generating unit [CGU] and impairment of assets). Further analysis and common errors made by the Candidates are detailed in Section 2.

Candidates are reminded that AFF module builds upon the knowledge and skills studied in the Principles of Financial Reporting (PFF) module. Candidates are expected to demonstrate a sound knowledge of and ability to apply the Conceptual Framework and the Singapore Financial Reporting Standards (International) (SFRS(I)), to produce a complete set of financial statements for a single entity and simple groups. Candidates are also expected to be able to explain and advise on the application of the SFRS(I), including the appropriate treatment and disclosure requirements, demonstrating appropriate professional judgement.

Candidates are reminded to be well-prepared across the range of SFRS(I) and not leave any SFRS(I) uncovered in their revision. Candidates should also be focused and relevant in their answers of the theoretical components in the paper. Copying and pasting of the contents of the relevant paragraphs from the SFRS(I) will receive little or no marks for the question. Marks can only be awarded for the application of the requirements to the facts of the case.

Section 2

Analysis of individual questions

Question 1

This question was on consolidated financial statements involving a Group comprising of a subsidiary and an associate. It required Candidates to prepare consolidation and equity accounting journal entries in **Part (a)**, and to provide independent proof for the Group's retained earnings in **Part (b)**. This question required the application of SFRS(I) 10 *Consolidated Financial Statements* as well as SFRS(I) 1-28 *Investments in Associates and Joint Ventures*.

Part (a) was generally well attempted by the Candidates. Many Candidates could provide the basic investment elimination entries, including the computation of goodwill; elimination of dividends received from both subsidiary and associate;

recording of non-controlling interests (NCI) of the subsidiary and account for NCI's share of the other comprehensive income (OCI) and fair value reserve of the subsidiary correctly.

The common errors made by the Candidates were as follows:

- Over-valued production equipment of the subsidiary at acquisition date, which was subsequently sold at a loss by the subsidiary to external party in the current year.

From the group's perspective, the machinery should first be adjusted to reflect the fair value of the production equipment at the group level (which was lower) and thereafter to adjust the subsequent years' depreciation and eventual loss on disposal of the production equipment in current year at the group level. Most of the Candidates were not able to prepare the correct journal entries (the entries were in the wrong direction and/or of incorrect amount) for the reversal of the over-valuation of the production equipment, subsequent years' depreciation and the recognition of the loss on disposal of this asset at group level. As a result, the NCI's share in net profit of the subsidiary for the year was not determined correctly.

- Inter-company sales of inventories from the subsidiary to parent at a profit during the current year and the inter-company balances at the end of the current year.

A number of Candidates computed the wrong amounts for inter-company sales and balances as at the year-end; including the unrealised profit in the closing inventories as at the year-end.

As for equity accounting for associates, most Candidates have done well. Common errors noted were mainly from the depreciation of the under-valued machinery of the associate. Many Candidates could not compute the correct amount (or prepare the correct entry) of the subsequent adjustment to the depreciation on the machinery. Hence, share of profit in the associate was not correctly journalised.

Part (b) continued to be the most challenging part of the paper as many Candidates did not attempt this part at all. For those who did attempt it, they did not perform well. Instead of preparing the independent proof of the group's retained earnings (as required by the question), they showed the workings of the Consolidated Statement of Comprehensive income that presented the Net profit after tax and OCI of the group instead. This showed their lack of understanding on how to perform an analytical check and the logic behind it.

Analytical checks are a critical review function that allows the accountant to derive a balance independently of the consolidation journal entries. Candidates should be familiar with analytical procedures that underscore a deeper understanding of the processes in consolidation.

Candidates should work towards high competency in consolidation. More attention should be given to transactions that involve inter-company elimination.

Question 2

Question 2 comprised of two parts and this question was relatively well-attempted by the Candidates.

Part I

Question 2 Part I (a) and (b) required the Candidates to identify the related parties of the reporting entity and to disclose the relevant information and relationship as required by SFRS(I) 1-24 *Related Party Disclosures* in the financial statements.

The Candidates generally performed well in identifying the related parties and many Candidates scored full marks for **Part I (a)**.

The common errors made by the Candidates were as follows:

- A handful of Candidates misread the question and wrongly identified the subsidiary and the associate as related parties because they thought that Michael, the key management personnel (KMP) of the reporting entity, had 75% and 30% stakes in the subsidiary and associate respectively. In the question, it was stated that it was the reporting entity that owned the respective shareholdings.
- Some Candidates did not justify the related party relationships correctly. They merely mentioned the respective parties are related parties to the reporting entity without indicating the reasons. The correct application of SFRS(I) 1-24 was to identify the relationship specified in the questions such as KMP of the parent and entities with significant influence or joint control.

For **Part I (b)**, Candidates generally were able to identify most of the items or transactions that required disclosure under SFRS(I) 1-24.

Question 2 Part II

Part II required the Candidates to apply SFRS(I) 15 *Revenue from Contracts with Customers* to compute construction revenue, contract costs and profit for the current year in **Part (a)** and to assess if there would be any foreseeable losses incurred for the project if the estimated cost to complete the contract was revised upward in **Part (b)**.

Part (a) was a straightforward question on revenue recognition via input method based on the percentage of completion. The performance of the Candidates was fair as most Candidates were able to compute the correct contract revenue, contract costs and profit for the year.

The common errors made by the Candidates were as follows:

- Some Candidates did not manage to calculate the percentage of completion correctly as they interpreted the contract cost incurred for the current year wrongly as the cumulative contract cost incurred to date.
- Some Candidates did not include the cumulative contract costs incurred in prior years.

As emphasised in past years, Candidates need to show workings to support the percentage of completion, contract revenue and contract costs. If Candidates presented incorrect amounts/answers, the absence of such workings resulted in the loss of working marks.

For **Part (b)**, many Candidates did not attempt or performed poorly for this part. This part required an answer relating to foreseeable future loss, if any, from the contract in the current year. Many Candidates wrongly interpreted the question. Some Candidates provided the answers for the total profit earned/loss incurred on the contract, while others misunderstood the revised estimated cost to complete the contract as an addition to the estimated cost to completion identified in **Part (a)**.

Candidates are advised to read the questions carefully before attempting them.

Question 3

Question 3 comprised of two parts was fairly attempted by the Candidates. However, there were clear differences between how well the different parts of the question were answered and how Candidates managed theoretical and practical questions. Generally, Candidates performed better in the quantitative components than in the qualitative components of the question.

Question 3 Part (a) involved application of requirements of SFRS(I) 9 *Financial instruments* and preparation of journal entries to record the events and transactions in relation to the hedging instrument and hedged item identified in the question. **Part (b)** required the Candidates to explain the accounting treatment of hedges of a net investment in a foreign operation.

Candidates generally performed well in answering **Part (a)** and prepared the journal entries (with proper narrations) with most of the accounts/amounts stated correctly. However, some Candidates forgot to prepare the journal entry for cost of sales when the hedged item was eventually sold.

Part (b) was badly attempted. It was observed that most Candidates did not understand the meaning of hedge accounting in relation to net investment in a foreign operation. There is a gap in terms of applying the knowledge to scenario-based question.

Many Candidates failed to understand and explain the differences in the accounting treatment of the hedge accounting at the entity's separate financial statements and at the consolidated financial statements. Candidates should work on their conceptual understanding which is a key element in the hedge accounting topic.

Several Candidates did not attempt this part of the question, which reiterates the importance for Candidates to manage their time on the day of the examination. Candidates must plan their time according to the requirements for each question.

Question 4

This three-part question tested Candidates on the concept of impairment in both theoretical and quantitative components. Under SFRS(I) 1-36 *Impairment of Assets*, Candidates were assessed on the recognition and measurement of impairment requirements in the case of a business acquisition.

Generally, the answers provided by candidates were average. It was noted that several candidates left parts of the questions either blank or incomplete.

Question 4 Part (a) required Candidates to explain how the identified business units qualified as cash-generating units (CGU)s. Overall this question was well answered, with many Candidates able to correctly pinpoint the factors defining a CGU.

Question 4 Part (b) required candidates to discuss two indicators of potential impairment.

Generally, the performance for this part was average. Whilst a majority of candidates were able to articulate the factors, some Candidates did not follow through and completely left out the rationale for potential impairment. These were namely the impact of these factors on future cash flows and recoverable amounts.

Question 4 Part (c) was probably the most challenging part of the three parts. This part required Candidates to perform an impairment test with computation of items such as the initial carrying amounts of the respective CGUs, allocation of impairment and post-impairment net carrying amount of the CGUs.

Performance was mixed for this question. Some Candidates were able to provide the correct answers to all the subparts while other Candidates missed out on a few inputs and a few candidates got this question completely wrong or left it blank.

The common errors made by the Candidates were as follows:

- Some Candidates did not allocate the carrying amount of the shared assets to the relevant CGUs.
- Most Candidates correctly allocated the impairment loss determined first to goodwill. However, many Candidates allocated the balance of the impairment loss to all the assets in the CGUs, instead of to carrying amounts of the assets and the shared assets in the relevant CGUs on a pro-rata basis.

- Most Candidates failed to perform a further impairment test to compare the carrying amount of the whole business with its recoverable amount. They also did not include the net carrying amount of the three CGUs after impairment with the initial carrying amount of the assets and failed to compute the total impairment loss recognised for the year correctly .

Overall, **Question 4** was the worst-performing question of the paper. Candidates should ensure that they are thoroughly familiar with the requirements of SFRS(I) 1-36 to answer the question. Before taking an exam, they should practise working out impairment tests so as to be conversant with deriving impairment losses. Candidates should also be mindful and alert as to the questions being posed in the examination paper. Responses should address the requirements of the questions itself. For example, the difference between a question that starts with “Discuss” and one starting with “State” is that the “Discuss” question requires an explanation of the rationale for the statement. Candidates should budget their time appropriately for each question based on the allocated marks.