



Singapore CA Qualification (Foundation) Examination

20 June 2023

Advanced Financial Reporting

INSTRUCTIONS TO CANDIDATES:

1. The time allowed for this examination paper is **3 hours 15 minutes**.
2. This examination paper has **FOUR (4)** questions and comprises **TWENTY-ONE (21)** pages (including this instruction sheet and Appendix A). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.
3. This is a restricted open book examination. You are allowed to have only the following materials with you at your exam location:
 - One A4-sized double-sided cheat sheet
 - One A4-sized double-sided blank scratch paper
4. During the examination, you are allowed to use your laptop and any calculators that comply with the ACRA's regulations. Please note that watches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination.
5. During the examination, videos of you and your computer screen will be recorded for the purpose of ensuring examination integrity and you have consented to these recordings.
6. This examination paper and all video recordings of this exam are the property of the Accounting and Corporate Regulatory Authority.

MODULE-SPECIFIC INSTRUCTIONS:

7. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.
8. Unless specified otherwise, assume that all the reporting entities in all the questions adopt, for all the relevant years, the Singapore Financial Reporting Standards (International) (SFRS(I)) that were issued by the Accounting Standards Council as at 1 January 2023.

IMPORTANT NOTICE:

If you are not feeling well, please do not press "Start Assessment". If you have started and leave during the exam, you would be deemed to have attempted the paper.

****VERY IMPORTANT NOTICE****

1. Your question paper is attached under the "**Resource**" tab found at the bottom right of **EACH** question.

Other important information:

2. You will **only be allowed** to access the Excel function from your computer.
3. You are **NOT ALLOWED** to access any websites or reference materials (except for your A4 sized double sided cheat sheet) during the exam.
4. You are **NOT ALLOWED** to print the question paper.
5. **Please take note that your screen will be monitored throughout the examination. If you are found to have accessed unauthorised materials or websites, or if you cheat or attempt to cheat, you will be liable to severe disciplinary action.**

Should you encounter any issues during the exam, please call the following number:

+65 6100 0518

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

Question 1 – (a) and (b)

The following are the summarised financial statements of the Grabby's group of companies:

	Grabby	Smolley	Abbey
	\$'000	\$'000	\$'000
Sales	120,720	69,900	40,230
Cost of sales	(40,960)	(25,280)	(14,090)
Gross profit	79,760	44,620	26,140
Other income	4,946	1,540	566
Operating expenses	(76,372)	(39,538)	(23,929)
Profit before tax	8,334	6,622	2,777
Tax expense	(1,644)	(1,372)	(547)
Profit after tax	6,690	5,250	2,230
Other comprehensive income/(loss)	490	260	(180)
Total comprehensive income	7,180	5,510	2,050

Statement of Financial Position

As at 31 December 20x6

	Grabby \$'000	Smolley \$'000	Abbey \$'000
Non-current Assets			
Property, plant and equipment	44,929	43,100	22,190
Investment in Smolley Pte Ltd (at cost)	28,500	-	-
Investment in Abbey Pte Ltd (at cost)	5,991	-	-
	<hr/> 79,420	<hr/> 43,100	<hr/> 22,190
Current Assets			
Inventories	9,620	5,110	2,606
Trade and other receivables	23,257	12,100	9,210
Cash and cash equivalents	1,783	1,010	814
	<hr/> 34,660	<hr/> 18,220	<hr/> 12,630
Total Assets	<hr/> 114,080	<hr/> 61,320	<hr/> 34,820
Equity			
Share capital	50,100	26,500	14,300
Revaluation reserves	2,590	1,230	960
Retained earnings	32,800	18,120	9,800
	<hr/> 85,490	<hr/> 45,850	<hr/> 25,060
Current Liabilities			
Trade and other payables	27,395	14,313	9,238
Provision for tax	1,195	1,157	522
	<hr/> 28,590	<hr/> 15,470	<hr/> 9,760
Total Equity and Liabilities	<hr/> 114,080	<hr/> 61,320	<hr/> 34,820

Statement of Changes in Equity (extract)
For the financial year ended 31 December 20x6

	Grabby		Smolley		Abbey	
	Revaluation reserves	Retained earnings	Revaluation reserves	Retained earnings	Revaluation reserves	Retained earnings
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 January 20x6	2,100	28,260	970	14,170	1,140	8,570
Total comprehensive income	490	6,690	260	5,250	(180)	2,230
Dividend paid	-	(2,150)	-	(1,300)	-	(1,000)
Balance as at 31 December 20x6	2,590	32,800	1,230	18,120	960	9,800

Additional information:

1. The Group, consisting of Grabby and Smolley, adopts the proportionate share of the fair value of the subsidiaries' identifiable net assets in measuring any non-controlling interest.
2. Ignore all income tax and deferred tax effects, if any, arising from business combinations.
3. There has been no change in the share capital of all the above companies since the respective acquisition dates.
4. Other income consists of dividend income and other miscellaneous income.
5. The revaluation reserves relate to the revaluation of property, plant and equipment held by companies in the Group.
6. When Grabby acquired 24 million of Smolley's 30 million ordinary shares on 1 January 20x3, the fair value of Smolley's net assets were represented by ordinary shares of \$26.5 million, revaluation reserves of \$0.63 million and retained earnings of \$5.02 million.
7. Smolley had sold goods to Grabby at cost plus 20% since 1 January 20x4. Per Grabby's records, \$1.2 million of these goods were unsold as at 31 December 20x5, and subsequently sold to external customers in 20x6.
8. Sale of goods from Smolley to Grabby during the current financial year amounted to \$4.8 million; of which Grabby had sold 70% to parties external to the Group, and paid \$3.3 million to Smolley as at 31 December 20x6.
9. On 1 April 20x4, Grabby sold a property with a remaining useful life of 15 years and a carrying amount of \$4.5 million to Smolley for \$3 million. Smolley paid Grabby for the property sale in June 20x4. The property was still held and used by Smolley as at 31 December 20x6.

10. Since Grabby's acquisition of Smolley on 1 January 20x3, Grabby charged Smolley a monthly fee of \$85,000 for management and administrative services. The fee was recorded as an operating expense and other income by Smolley and Grabby respectively. Smolley had fully paid Grabby for the fees as at 31 December 20x6.

11. Grabby acquired 30% of Abbey's ordinary shares on 1 January 20x4, when Abbey's net assets (before any fair value adjustments) were represented by ordinary shares of \$14.3 million, revaluation reserves of \$0.99 million and retained earnings of \$7.88 million. In addition, Abbey's factory equipment with a remaining useful life of 8 years was overvalued by \$3.2 million. The equipment was still held and used by Abbey as at 31 December 20x6.

12. Assume that a shareholding of more than 50% gives rise to control, while a shareholding between 20% and 50% gives rise to significant influence.

13. The Group adopts the straight-line method to amortise its property, plant and equipment and records depreciation as an operating expense.

**e-Exam
Question
Number**

Question 1 required:

Apply SFRS(I) 3 *Business Combinations*, SFRS(I) 10 *Consolidated Financial Statements* and SFRS(I) 1-28 *Investments in Associates and Joint Ventures* when answering **(a)** and **(b)**:

2

- (a)** Prepare the relevant consolidation and equity accounting entries for Grabby Pte Ltd Group for the financial year ended 31 December 20x6. Show the consolidation and equity accounting entries for the current financial year separately from those relating to the prior years.

Present your answers in the following format:

Transaction date

DR Account Name xxx

CR Account Name xxx

(Narration for Journal Entry)

(29 marks)

3

- (b)** In relation to the Consolidated Statement of Comprehensive Income for the financial year ended 31 December 20x6, prepare the independent proof for the net profit (or loss) after tax attributable to owners of Grabby Pte Ltd.

(6 marks)

(Total: 35 marks)

Question 2 – Part I & II

Part I

Hans SG (Hans), a company incorporated in Singapore, has a 100%-owned subsidiary company, Lucille AG (Lucille) in Switzerland.

The presentation currency of Hans is in Singapore Dollars (S\$), whereas the functional and presentation currency of Lucille is the Swiss Francs (CHF).

Lucille was incorporated on 1 March 20x2 with a share capital of CHF 500,000.

For practical reasons, Hans' policy is to use the average exchange rate for the financial year to translate all profit and loss items.

Lucille's summarised statement of financial position is as follows:

Lucille AG

Statement of financial position as at 31 December 20x6

	CHF
Assets	
Non-current assets	
Property, plant and equipment	1,836,550
Current assets	
Inventories	405,190
Trade and other receivables	432,210
Cash at bank	122,300
	<hr/> 959,700 <hr/>
Total assets	<hr/> 2,796,250 <hr/>
Equity	

Share capital	500,000
Revaluation reserve	88,100
Retained profits	1,746,800
	2,334,900
Liabilities	
Current liabilities	
Trade and other payables	411,900
Provision for income tax	49,450
	461,350
Total equity and liabilities	2,796,250

Additional information relating to Lucille:

1. Lucille's share capital remained unchanged since its incorporation in 20x2.
2. Lucille revalued its warehousing property to its market value on 31 December 20x6, recording a revaluation surplus of CHF 35,600 in the process. The last revaluation of the property was on 31 December 20x4, when a revaluation surplus of CHF 52,500 was recorded.
3. The net profit after tax for the financial year ended 31 December 20x6 amounted to CHF 571,480.
4. Dividends amounting to CHF 45,200 were paid on 21 June 20x6.
5. The following balances were extracted from Lucille's financial statements as at 31 December 20x5:

	CHF	Translated S\$
Retained profits	1,220,520	1,681,508
Translation reserve	N.A	33,440

6. The following exchange rates apply:

	Rate of CHF1 to S\$
1 March 20x2	1.35
31 December 20x4	1.42
31 December 20x5	1.39
21 June 20x6	1.45
31 December 20x6	1.50
Average rate for 20x6	1.40

**e-Exam
Question
Number**

Question 2 Part I required:

4

(a) Translate the Statement of Financial Position of Lucille AG for the financial year ended 31 December 20x6 into Singapore Dollars (S\$), in accordance with SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*. Show all workings, including calculations on the translation of the components of equity. Adjust your answers to the nearest dollar.

(8 marks)

5

(b) Prove the balance of the translation reserve to the nearest dollar as at 31 December 20x6.

(5 marks)

Part II

As at 1 May 20x2, Vitol Trading Inc. (Vitol) owned an inventory of coffee, carried at a cost of \$6.37 per kg. Vitol has contracted to sell 3,000 kg of this coffee on 30 June 20x2. To hedge the volatility in coffee prices, Vitol entered into a futures contract on 1 May 20x2 to sell 3,000 kg of its coffee at \$8.29 per kg on 30 June 20x2.

Date	Spot price per kg (\$)	Futures price per kg for settlement on 30 June 20x2 (\$)
1 May 20x2	8.22	8.29
31 May 20x2	7.85	7.95
30 June 20x2	7.44	7.60

Ignore (i) the margin deposit on futures contract, (ii) time value of money, as it is not expected to be significant, and (iii) tax effects, if any, arising from the above transactions. Assume that Vitol adopts a perpetual inventory system and Singapore Financial Reporting Standard (International) (SFRS(I)) 9 *Financial Instruments* for financial reporting purposes and that all criteria for hedge accounting under SFRS(I) 9 are met.

**e-Exam
Question
Number**

Question 2 Part II required:

6

- (a)** Prepare the journal entries to record the events and transactions as at 31 May 20x2 and 30 June 20x2 in accordance with SFRS(I) 9 *Financial Instruments*. Show all workings. Ignore tax effects and transaction costs, if any.

Present your answers in the following format:

Transaction date

DR Account Name xxx

CR Account Name xxx

(Narration for Journal Entry)

(12 marks)

7

- (b)** Compute the net profit / loss for the months of May 20x2 and June 20x2 under (i) hedging conditions based on the information provided and (ii) no hedging in place, i.e. no hedging contract was in place.

(3 marks)

(Total: 28 marks)

Question 3 – (a), (b) and (c)

NT&T Co (NT&T), with a financial year-end of 31 December, incurred the following expenditure to develop an intangible asset. The process had three stages:

- Research;
- Preliminary development; and
- Advanced development.

During the preliminary development stage, it has not been established that the intangible asset would meet all the criteria expected to generate future economic benefits equally over 10 years. These criteria are met when it entered the advanced development stage.

	<i>For the financial year ended 31 December</i>	<i>\$'000</i>
Research	20x1	1,650
Preliminary development	20x2	1,440
Advanced development:		
Hardware and software for development purposes	20x3	4,320
Wastage and losses arising from testing the prototype	20x3	790
Administrative expenses and overheads	20x3	2,800
Salaries of engineers involved in development	20x3	3,600

After the completion of the intangible asset, it was available for use on 1 January 20x4. The company adopts the policy of amortising its costs on a straight-line basis.

As at 31 December 20x5, the industry outlook deteriorated and NT&T estimated that the value-in-use would be \$5.6 million, whereas the fair value of intangible asset less its cost to sell assessed by a professional consultant would be \$5.25 million.

The economy improved in 20x6 and as at 31 December 20x6, NT&T estimated the value-in-use to be \$5.3 million and the fair value less cost to sell was \$5.4 million.

**e-Exam
Question
Number**

Question 3 required:

Apply SFRS(I) 1-38 *Intangible Assets* and SFRS(I) 1-36 *Impairment of Assets* when answering **(a)** and **(b)**:

8

(a) Calculate and identify the total expenditure to be recorded as expenses OR capitalised as intangible assets for the financial years ended 31 December 20x1, 20x2 and 20x3. Show all your workings. **(5 marks)**

9

(b) Record the relevant transactions for intangible assets as the financial years ended 31 December 20x4 and 20x5.

Present your answers in the following format:

Transaction date

DR Account Name xxx

CR Account Name xxx

(Narration for Journal Entry)

(9 marks)

**e-Exam
Question
Number**

10

- (c) When reviewing the financial performance for the financial year, the Managing Director asked if the bottom line could be improved so that the performance would look more comparable to the competitors in the industry. This would be useful as NT&T is preparing for its Initial Public Offering (IPO) soon. He suggested to the Finance Manager that the write-back of the impairment could be increased by being “more generous to the estimate of value-in-use” so that a higher write-back could be recorded. When the Finance Manager did not agree immediately, he asked “You’ve been with us for so many years. Don’t you want to progress beyond your current role? Overseeing a smooth IPO could be a good opportunity to prove your capability.”

Assume that both the Finance Director and Managing Director are members of the Institute of Singapore Chartered Accountants. With reference to Ethics Pronouncement (EP) 100, the *ISCA Code of Professional Conduct and Ethics*:

- Briefly explain if you agree with the Managing Director;
- Identify ONE fundamental principle which is being threatened from the perspective of the Finance Manager; and
- Discuss ONE threat that could compromise, or be perceived to compromise, the Finance Manager’s compliance with the fundamental principle identified above.

(6 marks)

(Total: 20 marks)

Question 4 – (a) and (b)

On 1 January 20x2, Grains Ltd (Grains), with a financial year-end of 31 December, granted 3,000,000 share appreciation rights (SARs) to its senior management of ten officers. Under this plan, each of them was granted to 300,000 SARs which entitled them to cash payment in the future, based on the increase in Grains' share price from that on the grant date at \$4.65 per share.

The SARs would vest conditional upon the employee working for Grains until 31 December 20x3, and they would be forfeited if the employee leaves the company prior to the service period of 2 years. All the vested SARs could be exercised any time after the vesting date and prior to expiry on 31 December 20x5.

The fair values of the SARs and market prices of Grains' shares on the following dates are as follows:

As at	Fair value of SAR (\$)	Share price (\$)
1 January 20x2	0.85	4.65
31 December 20x2	1.48	5.75
31 December 20x3	1.10	5.43
31 December 20x4	1.55	5.80
31 December 20X5	1.61	6.26

During 20x2, no officer left Grains. However, it was estimated that two officers would leave in 20x3.

During 20x3, one officer left Grains.

On 31 December 20x4, half of the outstanding SARs were exercised, and the remaining were exercised on 31 December 20x5.

**e-Exam
Question
Number**

Question 4 required:

Apply SFRS(I) 2 *Share-based Payment* when answering **(a)** and **(b)**:

11

- (a)** Prepare the journal entries for the financial years ended 31 December 20x2 to 20x5, including the settlement of the share-based payment. Show all workings. Ignore the tax effect, if any.

Present your answers in the following format:

Transaction date

DR Account Name xxx

CR Account Name xxx

(Narration for Journal Entry)

(13 marks)

12

- (b)** If share options were granted instead of SARs, discuss the accounting treatment for the share-based payment arrangement. Journal entries are not required.

(4 marks)

(Total: 17 marks)

END OF PAPER

Appendix A - Common verbs used by the Examiners

Verb	Description
Apply	Relate your answer back to a specific document/s or set of facts.
Calculate / Compute	Do the number crunching and derive the correct answer? Make sure that you write down your workings and crosscheck your numbers. Candidates often underperform because of careless mistakes.
Discuss	Discuss requires you to provide the 'for' and 'against' arguments, you cannot have a discussion without opposing views otherwise it would be just a conversation. If discuss is placed near the front of the instruction, then it requires you to provide an answer that is similar to explain, but addresses both the for and against arguments.
Explain	Explain requires you to write at least several sentences conveying how you have analysed the information in a way that a layperson can easily understand the concept or grasp the technical issue at hand.
Identify	Identify is similar to list, but requires you to also provide an explanation as to why the item/s that you have identified is/are relevant to the facts given in the question.
In accordance with	This instruction requires you to relate your answer back to a specific document. Failure to make specific mention of the document in your answer will result in a loss of marks.
Prepare / Present / Record	Prepare (or present) requires you to produce your answer using a specific format. For instance, " Present an extract of the notes to the accounts for ..." or " Prepare all the relevant journal entries for ...".
Prove	Prove requires you to establish that something is true by citing evidence or giving clear logical reasons.
Translate	For the purposes of this examination, translate refers to the conversion of monetary values from one currency into another currency.

Verb	Description
With reference to	This instruction requires you to relate your answer back to a specific document/s or set of facts. Failure to make specific mention of the document/s or facts in your answer will result in a substantial loss of marks.