

Singapore CA Qualification (Foundation) Examination

20 June 2024

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 ISCA's regulations. Please note that smartwatches, 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 2024.

IMPORTANT NOTICE:

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

e-Exam
Question
Number

1

****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 6028 9811

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

Question 1 – (a) and (b)

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

	Harry	Sabby	Alfa
	\$'000	\$'000	\$'000
Sales	220,950	75,700	21,150
Cost of sales	(79,230)	(26,420)	(8,030)
Gross profit	141,720	49,280	13,120
Other income	4,530	960	390
Operating expenses	(135,000)	(42,430)	(11,580)
Interest expenses	(275)	(800)	-
Profit before tax	10,975	7,010	1,930
Tax expense	(2,085)	(1,320)	(350)
Profit after tax	8,890	5,690	1,580
Other comprehensive income/(loss)	(330)	(120)	(60)
Total comprehensive income	8,560	5,570	1,520

Statement of Financial Position

As at 31 December 20x6

	Harry \$'000	Sabby \$'000	Alfa \$'000
Non-current Assets			
Property, plant and equipment	157,960	49,230	23,020
Long-term equity investments	23,900	10,020	5,200
Investment in Sabby Pte Ltd (at cost)	40,000	-	-
Investment in Alfa Pte Ltd (at cost)	10,400	-	-
	<u>232,260</u>	<u>59,250</u>	<u>28,220</u>
Current Assets			
Inventories	13,100	5,390	2,030
Trade and other receivables	55,300	15,920	3,570
Cash and cash equivalents	4,240	1,930	610
	<u>72,640</u>	<u>23,240</u>	<u>6,210</u>
Total Assets	<u>304,900</u>	<u>82,490</u>	<u>34,430</u>
Equity			
Share capital	175,900	38,400	20,500
Fair value reserves	6,990	3,100	1,940
Retained earnings	52,805	21,440	6,760
	<u>235,695</u>	<u>62,940</u>	<u>29,200</u>
Current Liabilities			
Trade and other payables	67,250	18,520	4,940
Provision for tax	1,955	1,030	290
	<u>69,205</u>	<u>19,550</u>	<u>5,230</u>
Total Equity and Liabilities	<u>304,900</u>	<u>82,490</u>	<u>34,430</u>

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

	Harry		Sabby		Alfa	
	Fair value reserves	Retained earnings	Fair value reserves	Retained earnings	Fair value reserves	Retained earnings
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance as at 1 January 20x6	7,320	46,565	3,220	17,650	2,000	5,830
Total comprehensive income	(330)	8,890	(120)	5,690	(60)	1,580
Dividend paid	-	(2,650)	-	(1,900)	-	(650)
Balance as at 31 December 20x6	6,990	52,805	3,100	21,440	1,940	6,760

Additional information:

1. The Group, consisting of Harry and Sabby, 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. Assume that a shareholding of more than 50% gives rise to control, while a shareholding between 20% and 50% gives rise to significant influence.
4. There has been no change in the share capital of all the above companies since the respective acquisition dates.
5. The Group adopts the straight-line method to depreciate its property, plant and equipment. Depreciation is computed to the nearest month of usage and recorded as an operating expense.
6. Other income consists of dividend income, short-term loan interest income and other miscellaneous income.
7. The fair value reserves relate to the revaluation of long-term equity investments held by companies in the Group.
8. When Harry acquired 10.8 million of Sabby's 18 million ordinary shares on 1 January 20x0:
 - Sabby's net assets were represented by share capital of \$38.4 million, fair value reserves of \$2.3 million and retained earnings of \$16.2 million.
 - Sabby's freehold land was undervalued by \$5.1 million and is still held by Sabby as at 31 December 20x6.
 - Sabby's specialised machinery, with a remaining useful life of 10 years, was assessed with a fair value of \$2.2 million lower than its carrying amount. Sabby

sold the machinery to an external party on 30 June 20x6, recording a loss of \$1.2 million in its operating expenses for the current financial year.

9. On 1 January 20x6, Harry extended a short-term loan amounting to \$15 million to Sabby for nine months. Harry charged Sabby interest of 6% per annum. The loan and interest were fully settled by Sabby on 30 September 20x6.
10. During the current financial year, Sabby sold inventories that cost \$7.2 million to Harry at a cost plus 25%. As at 31 December 20x6, 40% of the inventories remained with Harry, and 30% of the amount from the intragroup sales was outstanding.
11. Harry acquired a 40% stake in Alfa on 1 June 20x3, when the fair value of Alfa's net assets was represented by ordinary share capital of \$20.5 million, fair value reserves of \$1.3 million and retained earnings of \$4.2 million.
12. On 1 March 20x6, Alfa sold equipment with a carrying amount of \$6.5 million and remaining useful life of 6 years to Harry for \$5.6 million. As at 31 December 20x6, the equipment was still held and used by Harry.

**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 Harry's group of companies 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	
	\$'000
DR Account Name	xxx
CR Account Name	xxx
(Narration for Journal Entry)	

(30 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 total comprehensive income attributable to owners of Harry, showing the profit or loss and the other comprehensive income separately.

(8 marks)

(Total: 38 marks)

Question 2 – Part I and Part II

Lafarge SG (Lafarge), a company incorporated in Singapore, has a 100%-owned subsidiary company, Imperial Works Inc. (Imperial) in United Kingdom.

The presentation currency of Lafarge is in Singapore Dollars (S\$), whereas the functional and presentation currency of Imperial is in Great Britain Pounds (GBP). For practical reasons, Lafarge's policy is to use the average exchange rate for the financial year to translate all profit and loss items.

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

Statement of Financial Position As at 31 December 20x4

	GBP \$'000
Non-current assets	86,800
Current assets	36,400
Total Assets	<u>123,200</u>
Equity	
Share capital	45,600
Fair value reserve	8,400
Retained earnings	31,300
	<u>85,300</u>
Liabilities	
Non-current liabilities	15,800
Current liabilities	22,100
Total Liabilities	<u>37,900</u>
Total Equity and Liabilities	<u>123,200</u>

Additional information relating to Imperial:

1. Imperial was incorporated on 1 January 20x3 with a share capital of GBP 40 million. Its share capital remained unchanged until there was a share issue of GBP 5.6 million on 30 June 20x3.
2. Imperial invested in some equity securities in 20x3 and recorded them at fair value. Any surplus or deficit is recorded in the fair value reserve. There is no purchase or sale of investment securities to date. The following shows the movement in the fair values of these investments in the two years.

	Fair value (GBP'000)
April 20x3 upon purchase	31,450
As at 31 December 20x3	34,950
As at 31 December 20x4	39,850

3. Imperial incurred a net loss of GBP 4.7 million in the financial year ended 31 December 20x3. Its performance improved to earn a net profit of GBP 40 million in the current financial year.
4. Imperial paid its first dividend of GBP 4 million on 31 August 20x4.
5. Translation reserves as at 31 December 20x3 amount to debit S\$ 569,000.
6. The following exchange rates apply:

	Rate of GBP 1 to S\$
1 January 20x3	1.89
30 June 20x3	1.54
31 December 20x3	1.85
31 August 20x4	1.60
31 December 20x4	1.74
Average rate of 20x3	1.70
Average rate of 20x4	1.67

**e-Exam
Question
Number**

Question 2 Part I required:

- 4** **(a)** Translate the Statement of Financial Position of Imperial Works Inc. for the financial year ended 31 December 20x4 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. **(10 marks)**
- 5** **(b)** Prove the balance of the translation reserve to the nearest dollar as at 31 December 20x4. **(4 marks)**

Part II

Moxie Mart operates a small chain of mini-marts locally. It also owns a unit in an industrial building which was rented to an interior designer firm under an operating lease until the beginning of the current financial year, when the lease term ended. The property had since remained unoccupied due to poor sentiments of the commercial rental market.

During the Management's review of Moxie Mart's financial statements for the current financial year, the Managing Director highlighted the huge loss arising from a change in the fair value of the property. He had not expected the loss as the company had recorded only gains in the property's fair value in recent financial years.

He suggested that the company transfer the accounting of the property from investment property to owner-occupied property. He elaborated, "Doing this allows us to account for the property using the cost model. Depreciation expense of the property under the cost model is a constant amount yearly, unlike the unpredictable change in fair value of the property under the fair value model. This is also a much easier alternative than having to justify a change in accounting policy of investment property from fair value model to cost model. Besides, the property's current non-tenancy status is evidence of a change it uses."

The Managing Director then said to the Finance Manager, "We risk losing potential investors should we present operating expense projections that fluctuate largely year-on-year. You do know that our company's expansion and the career progression of all of us are at stake, right?"

The Finance Manager, who is a member of the Institute of Singapore Chartered Accountants, was well aware that Management was actively seeking a suitable tenant for the property.

Question 3 – (a)

On 1 January 20x2, Agile Technologies Ltd (Agile), with a financial year-end of 31 December, granted a share-based compensation plan to its 15 Management Team members. Under this plan, each of them will receive 1,200,000 share options with an exercise price of \$0.80. The vesting date of the options is 31 December 20x4. If the option holders leave before the vesting date, their share options will be forfeited. These share options will expire on 31 December 20x6.

The fair values of the share options and the expected forfeiture of share options are as follows:

As at	Fair value of share option (\$)	Number of Management Team members who left during the respective financial year	Number of Management Team members expected to remain as at 31 December 20x4
1 January 20x2	0.63	-	12
31 December 20x2	0.58	2	10
31 December 20x3	0.70	-	12
31 December 20x4	0.65	-	13 (actual)

The Management Team exercised 40% of the share options when Agile's share price was \$1.55 in 20x5. 50% of the remaining share options were exercised in 20x6 when the share price was \$0.85. The balance of the share options expired. It is the company's policy for any relevant reserve to remain in equity for these expired share options.

**e-Exam
Question
Number**

9

Question 3 required:

- (a) Applying SFRS(I) 2 *Share-based Payment*, prepare the journal entries for the financial years ended 31 December 20x2 to 20x6, including the settlement of the share-based payment. Show all workings. Ignore the tax effect, if any.

(15 marks)

(Total: 15 marks)

Question 4 – Part I and Part II

Part I

On 1 April 20x3, the Management of Green Food Pte Ltd (Green Food) planned to purchase a piece of equipment for United States Dollars (US\$) of \$4,500,000 to be paid on 31 December 20x3.

Green Food is concerned about the appreciation of US\$ at the end of the year; hence it entered into a forward foreign exchange contract on 1 April 20x3 to buy US\$4,500,000 at the rate of US\$1 = S\$1.365 on 31 December 20x3. The table below shows the movements in exchange rates:

Date (20x3)	Spot exchange rate (US\$:S\$)	Forward exchange rate for settlement on 31 December 20x3 (US\$:S\$)
1 April	1.358	1.365
30 June	1.372	1.376
30 September	1.367	1.372
31 December	1.403	1.403

Green Food applied cash flow hedge accounting and had designated the change in fair value of the forward foreign exchange contract based on the forward rate as a hedge against the expected cash flows of the planned purchase based on the forward rate. On 31 December 20x3, the purchase of the equipment, as well as the forward foreign exchange contract, was settled.

Assume that the hedge is effective under SFRS(I) 9 *Financial Instruments* for financial reporting purposes and that there was no change in the purchase price of the equipment. Ignore (i) the time value of money, as it is not expected to be significant, and (ii) tax effects, if any, arising from the above transactions.

**e-Exam
Question
Number**

Question 4 Part I required:

In accordance with SFRS(I) 9 *Financial Instruments*,

10

- (a)** Prepare the accounting entries to record the events and transactions as at 30 June 20x3, 30 September 20x3 and 31 December 20x3. Show all workings.

Transaction date	
DR Account Name	xxx
CR Account Name	xxx
(Narration for Journal Entry)	

(11 marks)

11

- (b)** If the company entered into the forward foreign exchange contract but did not apply cash flow hedge accounting:
- (i)** briefly explain the impact to the financial statements; and
 - (ii)** quantify the amount to capitalise as equipment and the net cash flows paid for the financial year ended December 20x3.

(3 marks)

Part II

Green World International (Green World) is working on a prototype and would like to launch it as the company's new product with the latest technology. It has incurred the following amount for the research and development phase of the prototype:

- Research costs of \$1.4 million
- Expenditure that are directly attributable to the development of the product but did not meet the capitalisation requirements of SFRS(I) 1-38 *Intangible Assets*, amounting to \$1.8 million.
- Expenditure that are directly attributable to the development of the product and meet the capitalisation requirements of SFRS(I) 1-38 *Intangible Assets*, amounting to \$3.8 million.

As at 1 January 20x1, the product development work was completed. An additional \$200,000 was incurred for the legal and filing costs of the patent. There was also a general overhead expenditure of \$100,000 and initial operating losses of \$250,000 incurred before the asset achieved planned performance.

The useful life of the patent was 10 years and the company established that straight-line amortisation would be most appropriate for this new patented product.

As at 31 December 20x4, due to the bleak industry outlook, an impairment test was conducted. The fair value less costs to sell was assessed to be \$1.5 million, and value-in-use was estimated to be \$1.8 million.

**e-Exam
Question
Number**

Question 4 Part II required:

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

- 12** **(a)** State any FOUR factors that must be present for directly attributable development expenditure to be capitalised.
(4 marks)
- 13** **(b)** Compute the total expenditure to be capitalised as an intangible asset.
(2 marks)
- 14** **(c)** Compute the impairment loss on the patented product as at 31 December 20x4 and compute the new amortisation amount for the financial year ended 31 December 20x5.
(4 marks)
(Total: 24 marks)

END OF PAPER

Appendix A - Common verbs used by the Examiners

Verb	Description
Compute	Do the number crunching and derive the correct answer.
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	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. When you reconcile the Bank Account in the General Ledger you are proving that the account balance is correct
Record	Record is similar to prepare in that you may need to perform a calculation and show the specific components in an appropriate format.
State	State is similar to list, but the items require your professional judgement. For instance, "State any restrictions that apply". One of the easiest ways to make sure that you state comprehensively is to think, "list and justify". You will note that state appears in many of the verb descriptions given.

Verb	Description
Translate	For the purposes of Singapore CA Qualification examinations, translate refers to the conversion of monetary values from one currency into another currency (although translate can refer to spoken and written language as well).