Chartered Accountant SINGAPORE

**SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT**

**MODULE:** Advanced Financial Reporting (AFF)

**EXAMINATION DATE: 20 June 2024**

**Section 1**

**General comments**

Overall, the Candidates have performed well in June 2024 for the AFF paper. Generally, the Candidates underperformed for **Question 1 (b)** (Independent proof for the Group's Consolidated Statement of Comprehensive Income) and **Question 4** (Intangible assets and Impairment of assets). Further analysis and common errors made by the Candidates are detailed in Section 2.

Candidates are reminded that the 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 single entities 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 judgment.

To do well for the exam, Candidates need 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 be relevant in their answers to the theoretical components of the paper.

They should read the question requirements carefully and adjust their answers accordingly to the question, as copying and pasting of contents of the relevant paragraphs from the SFRS(I) or general answers will receive little or no marks.

**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)**, provide independent proof for the total comprehensive income attributable to owners, and show the profit or loss and the other comprehensive income (OCI) separately in **part (b)**. This question required the application of SFRS(I) 10 *Consolidated Financial Statements* and 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 OCI and fair value reserve of the subsidiary correctly.

The common errors made by the Candidates were as follows:

(a) Over-valued specialised machinery of the subsidiary at the acquisition date, which was subsequently sold at a loss by the subsidiary to an external party in the current year.

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

(b) 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.

    Several Candidates computed the wrong amounts for inter-company sales and balances at the year-end, including the unrealised profit in the closing inventories at the year-end.

As for equity accounting for associates, most Candidates have done well. Common errors noted were mainly from the reversal of unrealised loss in the equipment arising from upstream sales from the associate to the parent. Many Candidates could not compute the amount of unrealised loss correctly, including the subsequent adjustment to the depreciation of the equipment. 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, they did not perform well. Instead of preparing the independent proof of the net profit after tax; other comprehensive income and total comprehensive income attributable to owners (as required by the question), they showed the workings of the Consolidated Statement of Comprehensive income that presented the Net profit after tax and Other Comprehensive income of the group instead. Some Candidates also included irrelevant aspects in their adjustments to the net profit after tax at the group level.

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

 

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

**Question 2**

Question 2 comprised of two parts and both parts of the question were well attempted by the Candidates. Question 2 was the best-performing question of the paper.

**Question 2 Part I**

**Part I** required the Candidates to translate the financial statements of a foreign subsidiary, in accordance with SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*, and to prove the balance of the translation reserve as at year-end.

Candidates generally performed well in the translation of foreign currency financial statements. Most of them applied the correct exchange rates for the assets and liabilities, as well as reserved at the respective dates.

Also, majority of the Candidates managed to prove the translation movement for the financial year and the balance of the translation reserve as at the financial year-end.

**Question 2 Part II**

**Part II** examined the Candidates on the application of the requirements of Ethics Pronouncement (EP) 100 the *ISCA Code of Professional Conduct and Ethics'.* It tested the Candidates' analytical abilities to comprehend the facts of the case given in this question and required the Candidates to explain if they agreed with the management's suggestion to transfer the property from investment property to owner-occupied property. Candidates were also required to identify one fundamental principle which is being threatened and one threat that could be compromised or perceived to compromise based on the facts of the question.

Part II (a) was badly attempted. Most Candidates failed to put forth the argument based on the financial accounting standards, i.e., SFRS(I) 1-8 *Accounting Policies, Changes in Accounting Estimates and Errors*, where that change in accounting policy can only be justified if there is a change in usage of assets.

Parts (II) (b) and (c) were well attempted by the Candidates. Most Candidates were able to identify the appropriate fundamental principle, which is being threatened and the threat that could be compromised or perceived to compromise.

However, a few Candidates answered the question by copying the content of the given case. Candidates are reminded to provide relevant answers to address the requirements of the question. Copying and pasting of contents of relevant paragraphs from the question will receive little or no marks. Marks can only be awarded for the correct application of the fundamental principles to the facts stated and correct identification of the threat that could be compromised or perceived to compromise.

**Question 3**

**Question 3** required the Candidates to apply SFRS(I) 2 *Share-based Payment* and prepare journal entries for the various years, including the settlement of the share-based payment.

This is a straightforward question on share-based remuneration, specifically on share appreciation rights (SARs). Many Candidates performed well as they provided the correct journal entries; even though some amounts were computed wrongly.

Common errors included, not amortizing the remuneration expense over the vesting period of the SARs, and not accounting for the exercised and unexercised SARs correctly. Some Candidates also used the wrong input for the fair value of the share option in their answers.

Candidates should display their workings whenever possible, especially questions on journal entries and share-based compensation as clear and concise workings to support the answer and the logic backing it up would still gain credit even if the answers are wrong.

Also, there were some Candidates that did not provide narration to their journal entries and were penalised.

**Question 4**

**Question 4** comprised of two parts and the overall performance of the question was satisfactory. There were clear differences between how well the different parts of the questions 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.

**Part I**

**Question 4 Part I (a)** involved an application of requirements of SFRS(I) 9 *Financial instruments* and to prepare the journal entries to identify the fair value changes in the hedging instrument and hedged item identified in the question. **Part I (b)** required the Candidates to briefly explain the impact to the financial statements, as well as quantify the amount to capitalize as equipment and the net cash flows paid if the entity did not apply cash flow hedge accounting to the forward foreign exchange contract.

Candidates generally performed well in answering **Part I (a)** and had prepared the journal entries with most of the accounts/amounts stated correctly. However, some Candidates incorrectly recognised the change in fair value of the forward contract in profit or loss instead of other comprehensive income.

This question involved the purchase of equipment under cash flow hedge accounting, and hence the settlement of the forward contract would result in the reclassification of cumulative fair value changes of the hedged instrument to the equipment, instead of Cost of Sales. Many Candidates determined the amount of cash flow hedge reserves incorrectly as they failed to factor in the effect of fair value changes to the hedged item. Likewise, Candidates neglected the journal entry for the reclassification of cash flow hedge reserves to adjust the fair value of the equipment.

A handful of the Candidates did not attempt this question, pointing out that time management during the examination is crucial. Candidates must plan their time according to the requirements of each question.

Also, there were some Candidates who did not provide journal entry narration and were penalised.

**Part I (b)** was badly attempted. It was observed that the Candidates did not understand the meaning of not applying hedge accounting.

The most common error encountered seems to be the misconception that the hedge reserve reversed into Revenue or Cost of Sales when it was stated that it was for an equipment and we are fundamentally hedging the cost of the equipment. Also, many Candidates did not explain clearly the impact to the financial statements and quantify the cost of equipment and the net cash flow paid, which are the requirements of the question.

The other error noted is that Candidates failed to understand the difference between applying and not applying hedge accounting and to differentiate applying cash flow hedge accounting from applying fair value hedge accounting. Conceptual understanding is still a key element in the hedge accounting topic, where Candidates should work on this aspect.

**Part II** consisted of 3 question parts.

It examined the Candidates on the application of both the standards SFRS(I) 1-38 *Intangible Assets* and SFRS(I) 1-36 *Impairment of Assets.*

Candidates were required to:

- State any four factors that must be present for directly attributable development expenditure to be capitalised**);**
- Compute the total expenditure to be capitalised as intangible assets; and
- Compute the impairment loss and the new amortisation amount for the patented product.

Generally, Candidates were able to answer parts (II) (a) and (b) of the question. Common errors for part (II) (a) was Candidates provided answers in point form without explaining the requirements explicitly.

Most of the Candidates performed well in **Part II (b)** and were able to identify the expenditures that were eligible for capitalisation as intangible assets correctly.

Most of the mistakes were from **Part II (c),** related to the wrong computation of the amortisation expense and the impairment loss. A number of Candidates did not identify the recoverable amount correctly, which should be the higher of the value-in-use and the fair value less cost to sell. Therefore, the resultant impairment loss when comparing the carrying amounts to the recoverable amount was not correctly determined. Also, the adjusted carrying amount should be amortised over the remaining useful life of the patented product. Some Candidates computed the new amortisation amount based on the original useful life instead.

Overall, Question 4 was the worst-performing question of the paper. Candidates could have scored better if they read carefully the facts of the case and addressed the requirements of the question.