

SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Advanced Financial Reporting (AFF)

EXAMINATION DATE: 2 December 2025

Section 1

General comments

The overall performance of the AFF December 2025 examination falls short of expectation. Generally, the Candidates underperformed for **Question 1 (b)** (independent proof for the Group's retained earnings) and **Question 4** (hedge accounting). 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)s), to produce a complete set of financial statements for single entity and simple Group. Candidates are also expected to be able to explain and advise on the application of the SFRS(I)s, including the appropriate treatment and disclosure requirements, demonstrating appropriate professional judgement.

Candidates are reminded to be well-prepared across the range of SFRS(I)s 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)s 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 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:

- Some Candidates erroneously used the associate's share capital, rather than the subsidiary's share capital in the consolidation journal entry to eliminate the investment in subsidiary. Also, the customer relationships (intangible asset) in subsidiary were recognised as property, plant and equipment or fair value adjustment which were unacceptable.
- Amortisation of the intangible asset acquired at acquisition date and up-stream sale of inventories from subsidiary to parent at a profit with balance outstanding at year end.

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

- Inter-company sales of machinery from the parent to subsidiary at a profit during prior financial year and realisation of the unrealised profit through higher depreciation at subsidiary level.

From the group's perspective, the unrealised profit from this down-stream sales had to be eliminated including the higher depreciation recorded at the subsidiary's book. Most of the Candidates could not identify the correct journal entries (the entries were in the wrong direction and/or of incorrect amount) for the reversal of gain on disposal of machinery and subsequent years' depreciation at group level.

As a result, the NCI's share in net profit for the current and prior years of the subsidiary was not determined correctly. However, most Candidates accounted for the NCI's share of the dividend appropriation and OCI balances correctly.

As for equity accounting for associates, most Candidates have done well. Common errors noted mainly from the unrealised profit in the closing inventories arising from inter-company sale from the associate to the parent. Many Candidates could not compute the correct amount (or the correct entry) for this equity accounting entry. 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, 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 Consolidated Statement of Comprehensive income that presented the Net profit after tax and OCI of the group instead. This showed their lack of understanding of how to perform and the logic behind the analytical check.

Analytical checks are critical review function that allows the accountants to derive a balance independently of the consolidation journal entries. It serves as a method of analytically validating key consolidated numbers. Candidates should be familiar with

analytical procedures that underscore a deeper understanding of the processes in consolidation.

Question 2

Part I 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.

Part I (a) involved the identification of two fundamental principles which is being threatened based on the facts of the question. Most of the Candidates performed well by identifying the appropriate fundamental principle which is being threatened.

Part I (b) involved the identification of two threats that could be compromised or perceived to compromise based on the facts of the question. Most of the Candidates performed well by identifying one threat that could be compromised or perceived to compromise.

Candidates should provide relevant responses that address both the fundamental principle being threatened and the nature of the threat that could compromise, or be perceived to compromise. 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 of the case and correct identification of the threat that could be compromised or perceived to compromise.

Part I (c) requested the Candidates to recommend two actions that can be taken by the accountant to eliminate or reduce the threats identified in **Part I (b)** to an acceptable level. Most of the Candidates performed well by identifying two appropriate measures which could be adopted to eliminate or reduce the threat to fundamental principles.

Part II consisted of 2 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:

- Define intangible assets and identify factors that must be present for directly attributable development expenditure to be capitalised in **Part II (a)**; and
- Prepare the journal entries to record the amortisation expenses and impairment loss relating to the intangible assets in **Part II (b)**.

Generally, Candidates were able to answer both **Parts II (a) and (b)** of the question.

Most of the Candidates performed well in **Part II (a)** where they were able to define intangible assets and identify the expenditures that were eligible for capitalisation as intangible assets correctly. Common errors for this part included Candidates that provided answers without explaining the requirements under the relevant SFRS(I)

explicitly and omitting the fact that research expenses should not be recognised as intangible asset.

Most of the mistakes were from **Part II (b)**, related to the wrong computation of the amortisation expense and the resulting impairment loss. Most Candidates did not compute the carrying amount of the intangible asset correctly. Therefore, the resultant impairment loss when comparing the carrying amount to the recoverable amount was not correctly determined. Also, the adjusted carrying amount should be amortised over the remaining useful life of the intangible asset. Some Candidates computed the new amortisation expense based on the original useful life instead.

Question 3

This question consists of 2 parts.

Part I tested candidates on the concept of impairment in quantitative terms promulgated by SFRS(I) 1-36 *Impairment of Assets*. A scenario of an entity which is a cash-generating unit (CGU) together with a brief description of key information including date of purchase, useful life of the relevant assets and the recoverable amount of the CGU was presented in the question. The Candidates were required to perform impairment test and compute reversal of impairment loss for the relevant financial years.

Generally, the answers provided by candidates were average, with some candidates performing very well and others performing below average. Several candidates left parts of the questions either blank or incomplete.

Common errors included the following:

- Most Candidates did not compute the carrying amounts of assets in the CGU correctly.
- Some Candidates did not allocate the impairment loss determined first to goodwill; and
- For the reversal of impairment loss in the subsequent financial year, most Candidates could identify the amount of write-back of impairment loss correctly. However, most of the Candidates failed to compute the carrying amount of the CGU at the end of next financial year if there were no impairment loss to the property, plant and equipment during the prior financial year.

Candidates should ensure that they are thoroughly familiar with the requirements of SFRS(I) 1-36. Before taking the examination, they should practise performing impairment tests, amongst others, reversal of impairment loss, to be conversant with this SFRS(I). Candidates should be mindful and alert as to the questions being posed in the examination paper.

Part II tested Candidates on share-based payment under SFRS(I) 2. Candidates were required to prepare journal entries for the relevant financial years, including the settlement of the share-based payment.

Candidates' performance for this part was fair. Most Candidates performed well for the journal entries, including appropriate workings, demonstrating a sound understanding of the accounting for share-based payments.

However, a minority incorrectly recorded the share option reserve (equity) as liability, or struggled with remeasurement of unexercised share appreciation rights, reflecting some gaps in their understanding of SFRS(I) 2.

Question 4

Question 4 comprised of two parts and overall, this question was poorly attempted by the Candidates. However, there were clear differences between how well the different part of the questions were answered and also how Candidates managed theoretical and practical questions. Generally, Candidates performed better in the quantitative components than in the qualitative components of the question.

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

Question 4 Part (a) involved an application of requirements of SFRS(I) 9 *Financial instruments* and required the Candidates to explain how the hedging relationship qualifies for hedge accounting and outline the requirements for hedge effectiveness. This part was generally not well answered. Many Candidates did not attempt this part, and among those who did, only a few provided comprehensive responses. A significant number of Candidates lack familiarity with the requirements for hedge accounting. Among those who responded, most could identify basic elements of a hedging relationship and some aspects of hedge effectiveness but commonly missed the requirement for formal designation and documentation at inception. Conceptual understanding is a key element in the hedge accounting topic, where Candidates should work on this aspect.

Question 4 Part (b), which required preparation of accounting entries for the hedge, saw a notable number of non-attempts. But most Candidates who attempted it performed reasonably well and demonstrated a good grasp of the required entries. However, some Candidates overlooked and forgot to prepare the journal entry to transfer the hedge reserve to equipment upon settlement of the forward foreign exchange contract.