PP

Singapore CA Qualification Examination

21 June 2024

Financial Reporting

INSTRUCTIONS TO CANDIDATES:

1. The time allowed for this examination paper is **3 hours and 15 minutes**.

2. This examination paper has **THREE (3)** questions and comprises **NINETEEN (19)** pages (including this instruction sheet and Appendix A). Each question may have **MULTIPLE** parts and **ALL** questions are examinable.

3. This is an open-book examination. 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.

4. 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.

5. This examination paper and all video recordings of this examination are the property of the Accounting and Corporate Regulatory Authority.

MODULE-SPECIFIC INSTRUCTIONS:

6. Assume that all dollar amounts are in Singapore dollar (S$) unless otherwise stated.

7. 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	**<u>**VERY IMPORTANT NOTICE**</u>**
1	

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

2. You may also download the question paper that allows annotation throughout your exam in Question 1 of the e-Exam portal.

3. Please download the relevant required Appendix in Question 1 of the e-Exam portal.

<u>Other important information:</u>

4. You will be allowed to access your reference materials but **will not be allowed** to communicate with anyone either physically or through any electronic means.

5. You are **<u>NOT ALLOWED</u>** to access any websites during the exam.

6. You are **<u>NOT ALLOWED</u>** to print the question paper.

7. **Please take note that your screen will be monitored throughout the examination. If you are found to have accessed any 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

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

Question 1 – (a) and (b)

P Co has a direct controlling interest in X Co and an indirect controlling interest in Y Co. The current abridged financial statements of P Co, X Co and Y Co for the year ended 31 December 20x6 are shown below. All figures shown are in $ unless otherwise indicated.

Abridged Income Statement and Statement of Changes of Equity for the year ended 31 December 20x6

	P Co	**X Co**	**Y Co**
Profit before tax	5,400,000	1,700,000	1,100,000
Tax	(1,080,000)	(340,000)	(220,000)
Profit after tax	4,320,000	1,360,000	880,000
Dividends declared	(200,000)	(120,000)	(90,000)
Profit retained	4,120,000	1,240,000	790,000
Retained earnings, 1 January 20x6	1,800,000	1,160,000	750,000
Retained earnings, 31 December 20x6	5,920,000	2,400,000	1,540,000

Abridged Statement of Financial Position as at 31 December 20x6

	P Co	**X Co**	**Y Co**
Investment in X Co, at cost	2,500,000	-	-
Investment in Y Co, at cost	-	900,000	-
Amount due from X Co	1,500,000	-	-
Other assets	5,780,000	5,090,000	4,800,000
Total assets	9,780,000	5,990,000	4,800,000
Amount due to P Co	-	1,500,000	-
Other liabilities	2,260,000	1,090,000	2,330,000
Share capital	1,600,000	1,000,000	800,000
Retained earnings	5,920,000	2,400,000	1,540,000
Fair value reserve	-	-	130,000
Total liabilities and equity	9,780,000	5,990,000	4,800,000

Table A shows the information relating to the acquisition of X Co and Y Co.

Table A: Information relating to the acquisition of X Co and Y Co

	X Co	**Y Co**
Date of acquisition by <u>immediate</u> parent	1 January 20x4	1 August 20x3
Percentage acquired by P Co	80%	
Percentage acquired by X Co		70%
Shareholders' equity at date of acquisition by <u>immediate</u> parent		
Share capital	1,000,000	800,000
Retained earnings	500,000	150,000
Fair value reserve	-	100,000
Shareholders' equity	***1,500,000***	***1,050,000***
Fair value of non-controlling interests on 1 January 20x4	420,000	560,000
Fair value of non-controlling interests on 1 August 20x3		440,000
Retained earnings of Y Co on 1 January 20x4 (when X Co was acquired by P Co)		230,000
Fair value reserve of Y Co on 1 January 20x4		120,000
Fair value reserve of Y Co on 31 December 20x5		150,000

Table B shows the fair value and book value of identifiable net assets as at the date of acquisition of X Co and Y Co (1 January 20x4).

Table B: Fair value and book value of identifiable net assets as at 1 January 20x4

	X Co-----------------------→		**Y Co----------------------→**	
	Book value	Fair value	Book value	Fair value
Equipment, net book value	600,000	700,000		
Inventory			160,000	200,000
Other net assets	900,000	900,000	990,000	990,000
Total net assets	***1,500,000***	***1,600,000***	***1,150,000***	***1,190,000***

Additional information relating to P Co, X Co and Y Co:

1. Unless otherwise stated, apply a tax rate of 20% on fair value differentials and other adjustments. Dividend income received is tax-exempt.
2. P Co measures non-controlling interests at full fair value on the acquisition date.
3. P Co and X Co measure investments in subsidiaries in their separate financial statements at cost.

Additional information relating to P Co:

On 1 January 20x6, P Co granted a loan to X Co to finance the self-construction of highly specialised machinery. During the construction of the machinery which began in February 20x6, X Co capitalised the interest in accordance with SFRS(I) 1-23 *Borrowing Costs*. The construction of the machinery will only be completed in 20x7. To finance the loan to X Co, P Co obtained a loan from an external bank. The following information relates to the borrowings for the year ended 31 December 20x6:

- Interest expenditure of X Co, capitalised in fixed assets $90,000
- Interest expense of P Co for external bank loan $60,000

Additional information relating to X Co:

1. The undervalued equipment of X Co had a remaining useful life of 10 years at the date of acquisition by P Co. On 31 December 20x6, an impairment review showed the following information for the equipment:
   - Value in use $400,000
   - Fair value less costs of disposal $450,000

2. During 20x5, X Co constructed a warehouse for P Co. P Co recorded construction work-in-progress during 20x5 and closed the account on 31 December 20x5 when the warehouse was completed. The warehouse was available for use by P Co on 1 January 20x6 and had an estimated useful life of 10 years from 1 January 20x6. During 20x5, X Co recorded the following in its income statement:
   - Construction revenue from P Co $2,000,000
   - Construction expense $1,580,000

Additional information relating to Y Co:

1. The following transactions relate to the undervalued inventory of Y Co:
   - Sold to third parties before 1 January 20x6 60%
   - Sold to third parties during 20x6 30%
   - Remained unsold on 31 December 20x6 10%

e-Exam Question Number	**Question 1 required:**
2	**(a)** Prepare the consolidation journal entries in relation to P Co and its subsidiaries for the year ended 31 December 20x6 in accordance with SFRS(I) 3 *Business Combinations* and SFRS(I) 10 *Consolidated Financial Statements.* **(37 marks)**
3	**(b)** Analytically determine the balance of non-controlling interests (proof of balance) of both X Co and Y Co in the consolidated financial statements of P Co as at 31 December 20x6. The compilation of the listing of consolidation journal entries is **not** required. The split between direct and indirect non-controlling interests of Y Co is **not** required. **(6 marks)** **(Total: 43 marks)**

Question 2 – Case A and Case B

Case A

A Co acquired a 40% interest in Z Co for S$608,000, which enabled A Co to have significant influence over Z Co. The functional and presentation currency of A Co is the Singapore dollar (S$) while the functional currency of Z Co is the United States dollar (US$). A Co recognises the investment in Z Co at cost in its separate financial statements. The abridged financial statements of Z Co for the current year ended 31 December 20x6 and other details are shown below.

Abridged Income Statement and Partial Statement of Changes of Equity of Z Co for the year ended 31 December 20x6

	US$	**Rate**	**S$**
Sales	3,020,000		
Cost of sales	(970,000)		
Gross profit	2,050,000		
Operating expenses	(1,020,000)		
Profit before tax	1,030,000		
Tax expense	(206,000)		
Profit after tax	824,000		
Dividends declared	(300,000)		
Profit retained	524,000		
Retained earnings, 1 January 20x6	1,754,000		
Retained earnings, 31 December 20x6	2,278,000		

Abridged Statement of Financial Position as at 31 December 20x6

	US$	**Rate**	**S$**
Net assets	3,198,000		
Share capital	500,000		
Retained earnings	2,278,000		
Revaluation reserves			

Arising as at 1 July 20x5	170,000	
Arising as at 1 July 20x6	250,000	
Foreign Currency Translation Reserve (FCTR)	-	
Equity	3,198,000	

Additional information relating to Z Co:

1. Information on the investment in Z Co is as follows:

Date of investment	1 January 20x4
Percentage of Z Co acquired on date of investment	40%
Shareholders' equity at date of investment	**US$**
Share capital	500,000
Retained earnings	700,000
	1,200,000

   There have been no changes in the share capital of Z Co since 1 January 20x4.

2. A due diligence review on 1 January 20x4 indicated a provision for claims of US$200,000 that was not recognised in Z Co's books because of counter-claims. A Co had accounted for this provision in its assessment of the fair value of identifiable net assets of Z Co. During 20x5, the courts dismissed Z Co's counter-claims and Z Co was ordered to pay the claimants US$250,000. The amount of US$250,000 was to be paid and was paid on 31 December 20x5 for the full settlement of the claims.

3. Z Co did not pay any dividends to its shareholders in 20x4 or 20x5. On 1 December 20x6, Z Co declared and recorded dividends of US$300,000 to its shareholders.

4. The foreign currency translation reserve (from translating the financial statements of Z Co) had a credit balance of S$123,540 as at 31 December 20x5.

5. On 1 July 20x5, Z Co revalued its property, plant, and equipment for the first time and recorded a revaluation surplus of US$170,000 after tax. On 1 July 20x6, Z Co

revalued its property, plant, and equipment and recorded a revaluation surplus of US$250,000 after tax.

6. During 20x6, Z Co's revenues, income, and expenses accrued evenly throughout the period. Tax effects at a rate of 20% arise at the same time as the underlying income or expense items.

7. Apply a tax rate of 20% on fair value differentials and *other appropriate adjustments*. Dividend income is tax-exempt.

8. The exchange rates were as follows:

Date	**S$ to US$1**
1 January 20x4	1.25
31 December 20x4	1.28
1 July 20x5	1.31
31 December 20x5	1.32
1 July 20x6	1.30
1 December 20x6	1.28
31 December 20x6	1.27
Average for 20x6	1.29

e-Exam Question Number	Question 2 Case A required:
4	**(a)** Translate the financial statements of Z Co from United States dollars (US$) to Singapore dollars (S$) for the year ended 31 December 20x6 in accordance with the requirements of SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*. You may present your answer using the template provided in Appendix A. **(9 marks)**
5	**(b)** Prepare equity accounting entries in Singapore dollars (S$) for the year ended 31 December 20x6 to recognise A Co's investment in Z Co in accordance with the requirements of SFRS(I) 1-28 *Investments in Associates and Joint Ventures* and SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*. For simplicity, current and prior balances of Foreign Currency Translation Reserve need not be separated. **(13 marks)**

Case B

B Ltd, a listed company, issued 5-year convertible bonds on 1 January 20x6 to raise funds for its capital expenditures. The details of the issue are as follows:

Proceeds from the issue	$8,420,000
Principal amount	$8,000,000
Coupon interest rate payable on 31 December	5% per year
Effective interest rate	6% per year
Fair value of the bonds without the conversion option	$7,663,011

The coupon interest is paid to bondholders annually on 31 December. Bondholders who convert their bonds are paid accrued interest on conversion of the bonds.

On 30 June 20x7, 40% of the bondholders converted their bonds to shares at a conversion rate of $1 of principal amount of the bond to one unit of ordinary share, after receiving their accrued half-year interest entitlement for 20x7 in accordance with the terms of the bond issue. No other bondholders converted their bonds in 20x6 or 20x7.

The interest expense is deductible for tax purposes at B Ltd's effective tax rate of 20%.

The events that resulted in changes in the number of ordinary shares of B Ltd during 20x7 are as follows:

Date	**Event**	**Number of issued ordinary shares**
1 January 20x7	Ordinary shares at the start of the year	12,000,000
1 May 20x7	Issue of ordinary shares to a supplier in exchange for machinery	800,000
30 June 20x7	Conversion of 40% of convertible bonds to ordinary shares	3,200,000
1 August 20x7	Repurchase of ordinary shares	(2,100,000)
31 December 20x7	Balance at the end of the year	13,900,000

B Ltd's financial year end is 31 December. The company's net profit after tax for the year ended 31 December 20x7 was $3,825,000.

B Ltd did not pay any dividends to its shareholders during 20x7.

Other than the ordinary shares and convertible bonds, B Ltd did not issue any other financial instruments.

e-Exam Question Number	Question 2 Case B required:
6	**(a)** Prepare the journal entries to record the following transactions relating to the convertible bonds in B Ltd's books: **(i)** Issue of the bonds on 1 January 20x6; **(2 marks)** **(ii)** Interest expense of the bonds for the year ended 31 December 20x6 and for the period from 1 January 20x7 to 30 June 20x7; and **(3 marks)** **(iii)** Conversion of the bonds on 30 June 20x7. **(2 marks)** You are not required to prepare the journal entries relating to the tax effects of the above entries and the amortisation table.
7	**(b)** Calculate the basic earnings per share for B Ltd for the year ended 31 December 20x7 in accordance with SFRS(I) 1-33 *Earnings per Share*. Present your answers in $ to four decimal points. **(3 marks)**

e-Exam Question Number	**Question 2 Case B required:**
8	**(c)** Calculate the diluted earnings per share for B Ltd for the year ended 31 December 20x7 in accordance with SFRS(I) 1-33 *Earnings per Share*. Present your answers in $ to four decimal points. **(5 marks)**
9	**(d)** Assume that the 40% of bondholders who converted their bonds to ordinary shares had converted their bonds on 1 January 20x7 instead of 30 June 20x7. Evaluate, whether and how, the basic earnings per share and the diluted earnings per share for the year ended 31 December 20x7 would be affected. If you conclude there is no change, state so and why. If you conclude there is a change, calculate the new basic earnings per share and/or the new diluted earnings per share for the year ended 31 December 20x7 and explain the change. **(3 marks)** **(Total: 40 marks)**

Question 3 – Part I and Part II

Part I

C Co is a Singapore-based company that has the United States dollar (US$) as its functional currency. On 1 October 20x6, C Co expects to sell and deliver 10,000 ounces of platinum to a customer on 31 January 20x7. The currency of the platinum sales transaction is the United States dollar (US$).

To hedge the price risk of the highly probable sale of platinum, on 1 October 20x6, C Co entered into a forward contract to sell 10,000 ounces of platinum at the contracted forward price of US$910 per ounce. The forward contract matures on 31 January 20x7. The currency of the forward contract is the United States dollar (US$).

Co C adopts hedge accounting and the forward contract met the hedge effectiveness criteria of C Co's risk management policies, in accordance with SFRS(I) 9 *Financial Instruments*. C Co's policy is to recognise the fair value of the forward contract in its entirety and not to separate the spot element and forward element of the forward contract.

C Co's financial year end is 31 December. On 31 January 20x7, the forward contract was net settled in cash. On the same day, C Co sold 10,000 ounces of platinum to the customer for cash at the spot price. The platinum inventory was carried at the lower of cost and net realisable value of US$8,800,000 (or US$880 per ounce) in C Co's books, in accordance with SFRS(I) 1-2 *Inventories*.

The spot and forward prices of platinum are shown below:

Date	Spot price per ounce of platinum	Forward price per ounce of platinum for contracts maturing 31 January 20x7
	US$	**US$**
1 October 20x6	928	910
31 December 20x6	940	930

31 January 20x7	904	904

e-Exam Question Number	Question 3 Part I required:
10	**(a)** Prepare the journal entries in **United States dollars (US$)** to record the transactions relating to the forward contract and the sale of platinum as at 31 December 20x6 and 31 January 20x7 in accordance with the requirements of SFRS(I) 9 *Financial Instruments*. State clearly if the accounts are profit/loss or other comprehensive income. Ignore tax effects. **(6 marks)**

Part II

Now assume that C Co has the Singapore dollar (S$) as its functional currency instead of the United States dollar (US$). On 1 October 20x6, C Co expects to sell and deliver 10,000 ounces of platinum to a customer on 31 January 20x7. The currency of the platinum sales transaction is the United States dollar (US$).

To hedge the price risk of the highly probable sale of platinum, on 1 October 20x6, C Co entered into a forward contract to sell 10,000 ounces of platinum at the contracted forward price of US$910 per ounce. The forward contract matures on 31 January 20x7. The currency of the forward contract is the United States dollar (US$). The foreign currency risk between US$ and S$ in the forecasted sales transaction is not hedged.

Co C adopts hedge accounting and the forward contract met the hedge effectiveness criteria of C Co's risk management policies, in accordance with SFRS(I) 9 *Financial Instruments*. C Co's policy is to recognise the fair value of the forward contract in its entirety and not to separate the spot element and forward element of the forward contract.

C Co's financial year end is 31 December. On 31 January 20x7, the forward contract was net settled in cash. On the same day, C Co sold 10,000 ounces of platinum to the customer for cash at the spot price.

C Co had originally purchased the 10,000 ounces of platinum at a cost of US$8,800,000 (or US$880 per ounce) on 1 August 20x6, when the spot exchange rate of US$1 to S$ was S$1.37. On 30 August 20x6, the net realisable value of the platinum inventory was US$8,900,000 (or US$890 per ounce), when the spot exchange rate of US$1 to S$ was S$1.33. The inventory was carried at the lower of cost and net realisable value in Singapore dollars (S$) in C Co's books, in accordance with SFRS(I) 1-2 *Inventories* and SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*.

The spot and forward prices of platinum and the US$1 to S$ exchange rates are shown below:

Date	Spot price per ounce of platinum	Forward price per ounce of platinum for contracts maturing 31 January 20x7	Foreign exchange rate
	US$	**US$**	**US$1 to S$**
1 October 20x6	928	910	US$1 = S$1.40
31 December 20x6	940	930	US$1 = S$1.34
31 January 20x7	904	904	US$1 = S$1.36

e-Exam Question Number	**Question 3 Part II required:**
11	**(a)** Prepare the journal entries in **Singapore dollars (S$)** to record the transactions relating to the forward contract and the sale of platinum as at 31 December 20x6 and 31 January 20x7 in accordance with the requirements of SFRS(I) 9 *Financial Instruments* and SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*. State clearly if the accounts are profit/loss or other comprehensive income. Ignore tax effects. You are not required to prepare the journal entries to record the purchase of the platinum inventory in August 20x6 and the net realisable value of the inventory. **(9 marks)**

e-Exam Question Number	Question 3 Part II required:
12	**(b)** Assume that besides hedging the price risk of the highly probable sale of platinum, C Co decided to also hedge the **foreign exchange risk** of the highly probable sale by entering into a forward contract with a notional amount of US$9,100,000 and a contracted forward rate of S$1.38. The forward contract has an inception date of 1 October 20x6 and a maturity date of 31 January 20x7. Explain whether C Co should buy or sell the US$9,100,000 in the forward contract and why. Please note that computations are **<u>not</u>** required in your answer. **(2 marks)** **(Total: 17 marks)**

END OF PAPER

Appendix A

Abridged Income Statement and Partial Statement of Changes of Equity of Z Co for the year ended 31 December 20x6

	US$	Rate	S$
Sales	3,020,000		
Cost of sales	(970,000)		
Gross profit	2,050,000		
Operating expenses	(1,020,000)		
Profit before tax	1,030,000		
Tax expense	(206,000)		
Profit after tax	824,000		
Dividends declared	(300,000)		
Profit retained	524,000		
Retained earnings, 1 January 20x6	1,754,000		
Retained earnings, 31 December 20x6	2,278,000		

Abridged Statement of Financial Position as at 31 December 20x6

	US$	Rate	S$
Net assets	3,198,000		
Share capital	500,000		
Retained earnings	2,278,000		
Revaluation reserves			
Arising as at 1 July 20x5	170,000		
Arising as at 1 July 20x6	250,000		
Foreign Currency Translation Reserve (FCTR)	-		
Equity	3,198,000		