Chartered Accountant SINGAPORE

SINGAPORE CA QUALIFICATION EXAMINER'S REPORT

MODULE: Financial Reporting (FR)

EXAMINATION DATE: 19 June 2025

Section 1
<u>General comments</u>

The paper tested Candidates on their understanding and application of Singapore Financial Reporting Standards (International) (SFRS(I)).

In **Question 1**, Candidates were required to demonstrate their understanding and application of SFRS(I) 3 *Business Combinations*, SFRS(I) 10 *Consolidated Financial Statements* and SFRS(I) 1-23 *Borrowing Costs*. Most Candidates displayed a good understanding of the preparation of basic consolidation journal entries. However, Candidates did not perform as well in **Part (a)** and **Part (c)**, as compared to **Part (b)**.

In **Question 2 Case A**, Candidates were required to demonstrate their understanding and application of SFRS(I) 1-7 *Statement of Cash Flows* and SFRS(I) 1-28 *Investments in Associates and Joint Ventures*.

Most Candidates performed well in **Part (a)** and **(b)**. They generally demonstrated a good understanding of preparing equity accounting entries in **Part (a)** and were able to calculate the proof of balance for the investment in A Co in **Part (b)**.

However, a significant number of Candidates did not attempt **Part (c)** and **(d)**, resulting in no marks awarded for these sections. In **Part (c)**, many struggled to accurately calculate the portion of the investment divested, and in **Part (d)**, Candidates faced challenges in reconstructing the Statement of Cash Flows under the equity method.

For **Question 2 Case B**, overall, was not well attempted. Many Candidates missed important details, particularly in performing impairment tests and in the presentation of discontinued operations.

In **Question 3**, Candidates generally did not perform well on this question, primarily due to misinterpretation of the requirements.

Some Candidates unnecessarily reworked the loan amortisation table, even though it was already provided in the question. Others incorrectly prepared their responses for the year 20X5 instead of 20X6, as clearly specified.

Additionally, as this was the final question, some Candidates ran out of time and were unable to complete their answers fully.

Section 2
Analysis of individual questions

Question 1

In this question, Candidates were required to demonstrate their understanding and application of SFRS(I), mainly SFRS(I) 3 *Business Combinations* and SFRS(I) 10 *Consolidated Financial Statements,* and SFRS(I) 1-23 *Borrowing Costs.*

Part (a) required Candidates to calculate the interest that is capitalised by X Co and interest that should be capitalised by P Co's Group during 20x6 (X Co is a subsidiary of P Co), in accordance with the requirements of SFRS(I) 1-23 *Borrowing Costs*.

This part was not well-attempted by most Candidates. Many Candidates did not know how to derive the weighted average expenditures, but simply calculated the interest based on the entire loan amount as given in the question.

Part (b) required Candidates to prepare consolidation journal entries relating to a company's (P Co's) interest, in its subsidiaries, X Co and Y Co.

Most Candidates performed relatively well for this question part. Most Candidates were able to correctly furnish the consolidation journal entries pertaining to the elimination of investment in X Co and Y Co, allocation of post-acquisition retained earnings to non-controlling interests (NCI), elimination of intra-group balances and elimination of dividends declared by X Co and Y Co but made common errors as identified below.

Common errors included the following:

- The adjustment for upstream sale of fixed assets from Y Co to X Co as at transfer date – many Candidates did not know how to adjust for the differences between entity and group levels or to differentiate between artificial and impairment loss.

- The adjustment for past and current amortisation of intangible asset – some Candidates were unable to derive the correct amortisation amount.

- The adjustment of capitalised interest – many Candidates were unable to derive the correct amounts for interest income, fixed asset in progress and interest expense, and some adjusted the fixed asset in progress in the reverse way.

- The allocation of current year profit to NCI of Y Co – While most Candidates were able to furnish the correct consolidation adjustment, many were unable to work out the correct amount. They either did not adjust or adjusted the wrong amount, for after-tax amortisation of intangible asset, after-tax unrealised loss on fixed asset and after-tax depreciation on transferred fixed asset.

- Some Candidates omitted the following consolidation adjustments:

- Past expensing of overvalued receivables in X Co and the related tax effects
- Reclassification of loss on sale to impairment loss
- Adjustment of depreciation on transferred fixed asset from Y Co to X Co
- Allocation of post-acquisition retained earnings to total NCI of Y Co
- Adjustment of capitalised interest and the related tax effects

Overall, for this question part, Candidates are reminded to understand the common consolidation adjustments required, including but not limited to, intra-group sale of assets, past and current adjustments related to undervalued fixed assets, etc.

Part (c) required Candidates to perform an analytical check (proof of balance) of NCI of X Co and Y Co.

The performance for this part was fair. While some Candidates demonstrated that they understood and correctly applied the concept of performing an analytical check (proof of balance) of NCI of X Co and Y Co, other Candidates need to have a better understanding of how to perform an analytical check of NCI, especially the adjustment for after-tax remaining balance of intangible asset and after-tax remaining unrealised loss.

Some Candidates correctly included goodwill in the analytical check of NCI, but the amounts were wrong.

The analytical check is a way of determining the consolidated balances of key figures independently of the process of passing elimination and adjusting entries. It serves as a method of analytically validating key consolidated numbers. Candidates are encouraged to understand the logic behind the analytical check of NCI.

Question 2

Question 2 Case A

Part (a) required Candidates to prepare equity accounting journal entries for Investor Co's interest in A Co for the year ended 31 December 20X6, excluding the divestment entry.

Most Candidates demonstrated a sound understanding of the equity method and were able to correctly record the share of post-acquisition retained earnings and dividend income.

Common errors included the following:

- Many Candidates did not adjust for depreciation on the previously undervalued fixed assets (net of tax) before applying the 30% investor share when calculating the share of profit under equity accounting.

- Some Candidates did not provide appropriate account titles or narrations in their journal entries.
- Several Candidates incorrectly presented credit entries as negative figures.

Part (b) required Candidates to calculate the carrying amount of the investment in A Co as at 31 December 20X6, before the 10% divestment.

This part was generally well done. Most Candidates were able to track the movements in A Co's equity and apply the investor's share appropriately.

Common errors included the following:

- Some Candidates presented their responses in the form of journal entries, despite the question specifically requiring an analytical check or proof of balance which is independent of the journal entries. This suggests a misunderstanding of the question requirements.

- Some Candidates did not account for the depreciation adjustment on undervalued fixed assets (net of tax), resulting in an overstated investment balance.

Part (c) required Candidates to calculate the profit or loss on disposal of the 10% interest in A Co under the equity method.

Many Candidates struggled with this part. Few Candidates correctly used the investment balance derived in **Part (b)** to compute the gain or loss on disposal.

Part (d) required Candidates to prepare the Statement of Cash Flows of Investor Co for the year ended 31 December 20X6, with the investment in A Co accounted for using the equity method.

This was the weakest-performing section. While some Candidates organised their responses into the required sections — operating, investing, and financing activities — many did not, and instead presented partial or unstructured answers.

A common mistake was the inclusion of A Co's full cash flows, which is incorrect. Under the equity method, only Investor Co's share of profit and dividends received from A Co should be reflected.

For cash flow questions, Candidates are expected to clearly present the main sections: cash flows from operating activities, investing activities, financing activities, and the net change in cash and cash equivalents. A structured and systematic format is essential for clarity and accurate assessment.

Question 2 Case B

Part (a) required Candidates to perform an impairment assessment using the value in use (VIU) approach.

While many Candidates demonstrated that they understood the concept of VIU, not all appreciated the need to discount the terminal value. As a result, it was unfortunate that a significant number of Candidates who otherwise understood the VIU concept were unable to score full marks, as they did not consider the terminal value in its entirety.

Well-prepared Candidates provided a structured, step-by-step analysis that mirrored the expected impairment knowledge. These Candidates first identified the relevant forecast cash flows, applied the correct discount rates, aggregated the present values to derive the recoverable amount, and then compared this to the carrying amount to determine the impairment loss. Such answers were systematic and correctly set off goodwill before allocating the impairment to other assets on a pro-rata basis.

In contrast, weaker Candidates failed to recognise the need to discount the cash flows (present value), and some incorrectly used fair value less costs to sell as the basis for assessing impairment instead of VIU.

Majority of the Candidates correctly applied the adjustment factors to the Year 1 and Year 2 cash flows and often wrote out the core formula before inserting the figures — a good practice to ensure completeness and accuracy.

Credit also goes to Candidates who correctly recognised that goodwill must be fully impaired first before allocating any remaining impairment loss to other assets.

Notably, well-prepared Candidates included clear narrations for each step, such as “Step 1: Value in Use,” “Step 2: Compare to Carrying Amount,” and “Step 3: Allocate Loss.” This narration guided the Candidate’s presentation and facilitated the marker’s understanding of their thought process, to award marks.

Part (b) required Candidates to demonstrate their understanding of the measurement and presentation of discontinued operations.

A significant number of Candidates failed to apply the principle that inventory should be measured at the lower of cost and net realisable value (NRV).

Some Candidates merely copied statements from the question without making any adjustments, and several Candidates did not attempt this part at all.

Stronger Candidates demonstrated an appreciation of how discontinued operations and assets held for sale should be presented in the primary financial statements. They avoided confusion, such as mislabelling “Retail” in the statements.

The best responses correctly identified and disclosed the key items associated with discontinued operations and assets/liabilities held for sale. However, some candidates, while describing these items correctly, misclassified them under non-current assets, reflecting a partial understanding of the concept.

Only some Candidates provided further breakdown disclosures of the net loss from discontinued operations presented in the primary statement of profit or loss, specifically:

- The post-tax profit or loss of the discontinued operation; and
- The post-tax gain or loss from measurement or disposal.

Almost none of the Candidates provided a full breakdown of the post-tax profit of the discontinued operation.

Candidates should further develop their appreciation of disclosure requirements as a critical aspect of SFRS(I). In this case, a clear understanding of the specific disclosures related to discontinued operations is essential. Incorporating a dedicated session focused on disclosure requirements across various standards could help candidates better understand and appreciate the importance of disclosures in financial reporting. Such a session could also reinforce the need for completeness and accuracy, ultimately improving the overall quality and presentation of their responses.

Question 3

Candidates generally did not fully understand the requirements of the Question and spent time reworking numbers that had already been provided. A common mistake was preparing journal entries for the year 20X5 instead of 20X6, although many Candidates may have assumed that this step was required to derive figures for 20X6.

Most Candidates were able to address the first two requirements of the Question, namely evaluating the fair value through other comprehensive income (FVOCI) classification for an equity instrument and a debt instrument.

However, the requirement to account for foreign currency translation gains and losses was poorly understood and poorly answered by most Candidates.

Some Candidates struggled to correctly apply the FVOCI concept in their journal entries. As these instruments are measured at fair value, Candidates should not use an allowance or impairment account, but instead directly adjust the fair value through OCI.

Additionally, several Candidates were unable to differentiate between the functional currency of the debt instrument and the reporting currency when evaluating fair value changes across reporting periods. This reflects a lack of understanding of the treatment of foreign exchange movements in combination with fair value measurement.

