FP

Chartered Accountant
SINGAPORE

Singapore CA Qualification (Foundation) Examination

19 June 2024

Principles of 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 **THIRTEEN (13)** pages (including this instruction sheet, Appendix A and Appendix B). 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 and **MUST NOT** be within reach or sight or hearing from where you are seated to write the exam.

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.

9.   Present all Journal Entries in the following format:

Transaction date	
DR Account Name	xxx
CR Account Name	xxx
(Narration or journal title)	

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	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 – Part I and Part II

Part I

You are the chief accountant of Company Mercury. Your assistant prepared the following statement of comprehensive income for the year ended 31 December 20x3.

Company Mercury
Statement of Comprehensive Income
for the year ended 31 December 20x3

	$'000
Net sales	12,700
Interest revenue	580
Gain on sale of property, plant and equipment	720
Total revenues and gains	14,000
Cost of goods sold	(7,100)
Operating expenses (including depreciation of $560,000)	(3,310)
Interest expense	(340)
Fair value loss	(90)
Income tax expense	(700)
Total costs and expenses	(11,540)
Net income	2,460

Your assistant provided the following analysis of changes in balance sheet accounts for the year 20x3.

Additional information:

1. Accounts receivable increased by $230,000.

2. Accrued interest receivable decreased by $30,000.

3. Inventory decreased by $310,000 and accounts payable to supplier of merchandise decreased by $220,000. The periodic inventory system is being used.

4. Prepayments for operating expenses increased by $45,000 and accrued liabilities for operating expenses increased by $30,000.

5. Accrued interest payable decreased by $23,000.

6. Income tax payable increased by $27,000.

7. Purchases of marketable securities were $480,000. Sales of marketable securities were $390,000. Marketable securities are recorded at FVTPL (fair value changes recognised in profit/loss).

8. Book value of property, plant and equipment sold was $1,320,000. Cost of property, plant and equipment purchased was $920,000.

9. Treasury shares were repurchased at a price of $400,000. Retained earnings increased by $1,800,000.

10. Loan borrowing repaid was $2,000,000. There was no additional loan borrowing.

11. Cash and bank balance on 1 January 20x3 was $8,200,000, and on 31 December 20x3 was $8,439,000.

e-Exam Question Number	Question 1 Part I required:
2	**(a)** Prepare Company Mercury's statement of cash flows for the year ended 31 December 20x3. Use the **direct method** to present operating cash flows. **(17 marks)**

Part II

Mr Tan is the founder and sole owner of Company Calcium ("Calcium"). Mr Tan is the CEO, while his daughter, Miss Tan is the CFO of Calcium and is a Chartered Accountant of Singapore. Miss Tan is the CEO of Company Magnesium ("Magnesium"), a subsidiary 70% owned by Calcium. Mr Tan asked Miss Tan to use her positions in both companies to approve the purchase of goods at a markup of 50% over cost by Magnesium from Calcium. The market price of identical goods is typically 20% over cost. The same goods were repurchased by Calcium at the typical market rate after the financial year end. Mr Tan also asked Miss Tan not to disclose this transaction in the financial statement of Magnesium.

e-Exam Question Number	Question 1 Part II required:
3	**(a)** Assess the professional and ethical factors in Miss Tan's consideration whether to comply with her father's requests, factoring the relevant accounting standards. Consider the consequences of any failure to uphold professional ethics. Recommend an appropriate course of action to Miss Tan.
	(5 marks)
	(Total: 22 marks)

Question 2 – (a) and (b)

Company Lithium ("Lithium") manufactures ships for sale and/or lease. On 1 July 20x3, Lithium completed the manufacture of a ship at cost of $10 million and leased out the ship to a customer Company Titanium ("Titanium"). The ship has an economic useful life of about 40 years, while the lease term is 8 years. The lease agreement provides an option for Titanium to buy the ship at a price of $20 million at the end of the lease. This option price is at a bargain, significantly below the market price. The lease payments are payable semi-annually on 31 December and 30 June at $400,000 per payment, with the first payment on 31 December 20x3. Implicit return of lease is 10% per annum.

On 30 June 20x11, at the end of lease Titanium exercised the option and purchased the ship at $20 million in cash. In December 20x11, Titanium's ship suffered damages during a storm at sea. Titanium assessed that the ship was impaired by $2 million resulting from the damages. Titanium applies the cost method to account for property plant and equipment.

e-Exam Question Number	Question 2 required:
4	**(a)** Record the journal entries (if any) in the financial statements of Lithium and Titanium on 1 July 20x3, 31 December 20x3, 30 June 20x4, 30 June 20x11 and 31 December 20x11. Round your answers to the nearest thousands. **(31 marks)**
5	**(b)** State the impairment indicators that Titanium use to assess that the ship was impaired by $2 million. Determine recoverable amount of the ship on 31 December 20x11. **(2 marks)** **(Total: 33 marks)**

Question 3 – Part I and Part II

Part I

Company Carbon ("Carbon") manufactures and sells electrical goods. Carbon makes provisions for one-year warranties on the electrical goods it sells to customers. Customers could also buy extended warranties of an additional two years.

In 20x3, Carbon sold $3 million of electrical goods on cash and $140,000 of extended warranties across 20x4 and 20x5 on cash. Carbon estimated the probabilities and amounts of warranty costs as follows:

Year	Probability	Expected warranty cost
20x4	40%	20,000
	60%	30,000
20x5	50%	60,000
	50%	80,000

In 20x4, the actual warranty costs paid for 20x3 sales were $45,000. On December 20x4, Carbon revised the expected warranty costs for 20x5 to be $100,000 with a probability of 70% and $120,000 with a probability of 30%.

In 20x5, the actual warranty cost paid for 20x3 sales was $74,000.

Ignore taxes and any discounting.

e-Exam Question Number	Question 3 Part I required:
6	(a) Record the journal entries for the above transactions in the financial statements of Carbon for the years 20x3, 20x4 and 20x5. **(14 marks)**

Part II

Company Sodium ("Sodium") sells books on its e-commerce platform. Customers can self-collect purchased books or request for delivery of purchased books. On 15 December 20x1, customer C bought self-collected books for $1,000 and bought identical books for delivery to a friend for $1,250. The latter is to be delivered on 15 January 20x2. All purchases were paid in cash.

On 1 July 20x1, Sodium purchased an old leasehold office unit with remaining lease of 30 years for $600,000 in cash to store the books. On 31 December 20x1, Sodium moved the books to another location and kept the old leasehold office unit for the purpose of earning rental income. The fair value of leasehold office unit was $620,000 on 31 December 20x1.

Sodium applies revaluation model on Property, Plant and Equipment (PPE) and fair value model on investment property.

e-Exam Question Number	Question 3 Part II required:
7	**(a)** Record the journal entries for the above transactions in the financial statements of Sodium for 20x1. **(9 marks)**
8	**(b)** State the different measurement bases for property, plant and equipment and investment property allowed by the standards. **(2 marks)** **(Total: 25 marks)**

Question 4 – (a) and (b)

Company Potassium ("Potassium") purchased share investments at a cost of 200,000 Eurodollars (EUR) on 1 October 20x2 and received EUR 5,000 dividends on 31 December 20x2. The share investments are accounted at FVOCI (fair value changes recognised in other comprehensive income). The fair value of share investments was EUR 234,000 on 31 December 20x2.

Potassium took a loan of EUR 150,000 on 1 July 20x2. The loan carried interest of 8% per year payable annually on 30 June. The loan is accounted at amortised cost.

Assume the functional currency of Potassium is Singapore dollars (SGD).

The foreign exchange rates are as follows:

	1 EUR to SGD
1 January 20x2	1.30
1 July 20x2	1.35
1 October 20x2	1.38
31 December 20x2	1.45
Average July-December 20x2	1.39

Potassium held cash balances of EUR 2,000,000 on 1 January 20x2.

e-Exam Question Number	Question 4 required:
9	**(a)** Explain any two factors to consider in determining the functional currency of Potassium. **(2 marks)**
10	**(b)** Record journal entries for the month of December 20x2 in the functional currency of Potassium. Include journal entries for foreign exchange gains and losses on monetary assets and monetary liabilities. **(18 marks)**
	(Total: 20 marks)

END OF PAPER

Appendix A - Common verbs used by the Examiners

Verb	Description
Assess	Make a judgment about the value, quality, outcomes, results, or size. Often there will be a qualifier in the instruction, which will tell you exactly what to **assess**. For instance, "**Assess** the <u>adequacy</u> of the disclosures in the financial statements relating to …". Professional judgment and scepticism (a questioning mind) are called for when making an **assessment**. **Appraise** and **Assess** are interchangeable.
Determine	Ascertain or **conclude** after **analysis** and **evaluation** the most appropriate course of action or most correct answer from a range of viable alternatives.
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.
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 …". Remember, a journal is only complete if it shows the date of the entry, the correct accounts, the correct amounts, and has a description (narration) – easy marks are often thrown away through carelessness.
Recommend	Make a statement about the most appropriate course of action. If there is more than one possible course of action, **state** which action you would choose and why (**justify** your choice). Your professional judgment and your ability to **interpret** the wider situation are critical to scoring well in these types of questions. Don't forget to think about the future and the past, not just the present when making a **recommendation**.
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** <u>and</u> **justify**". You will note that **state** appears in many of the verb descriptions given.
Use / Using	This instruction tells you the type of model that you must **use** when formulating your answer. For instance, "<u>Using the Discounted Cash Flow approach</u>, …" tells you what valuation approach to use.

Appendix B - Future Value and Present Value Tables

Present value interest factor of $1 per period at i% for n periods (T), PVIF(i,n).

T	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424

Future value interest factor of $1 per period at i% for n periods (T), FVIF(i,n).

T	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	1.010	1.020	1.030	1.040	1.050	1.060	1.070	1.080	1.090	1.100
2	1.020	1.040	1.061	1.082	1.103	1.124	1.145	1.166	1.188	1.210
3	1.030	1.061	1.093	1.125	1.158	1.191	1.225	1.260	1.295	1.331
4	1.041	1.082	1.126	1.170	1.216	1.262	1.311	1.360	1.412	1.464
5	1.051	1.104	1.159	1.217	1.276	1.338	1.403	1.469	1.539	1.611
6	1.062	1.126	1.194	1.265	1.340	1.419	1.501	1.587	1.677	1.772
7	1.072	1.149	1.230	1.316	1.407	1.504	1.606	1.714	1.828	1.949
8	1.083	1.172	1.267	1.369	1.477	1.594	1.718	1.851	1.993	2.144
9	1.094	1.195	1.305	1.423	1.551	1.689	1.838	1.999	2.172	2.358

Present value interest factor of an (ordinary) annuity of $1 per period (T) at i% for n periods (T), PVIFA(i,n).

T	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	5.995	5.759

Future value interest factor of an ordinary annuity of $1 per period (T) at i% for n periods (T), FVIFA(i,n).

T	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
2	2.010	2.020	2.030	2.040	2.050	2.060	2.070	2.080	2.090	2.100
3	3.030	3.060	3.091	3.122	3.153	3.184	3.215	3.246	3.278	3.310
4	4.060	4.122	4.184	4.246	4.310	4.375	4.440	4.506	4.573	4.641
5	5.101	5.204	5.309	5.416	5.526	5.637	5.751	5.867	5.985	6.105
6	6.152	6.308	6.468	6.633	6.802	6.975	7.153	7.336	7.523	7.716
7	7.214	7.434	7.662	7.898	8.142	8.394	8.654	8.923	9.200	9.487
8	8.286	8.583	8.892	9.214	9.549	9.897	10.260	10.637	11.028	11.436
9	9.369	9.755	10.159	10.583	11.027	11.491	11.978	12.488	13.021	13.579