Chartered Accountant SINGAPORE

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Principles of Financial Reporting (PFF)

EXAMINATION DATE: 19 June 2024

Section 1
General comments

Compared to the December 2023 examination, the overall performance for the June 2024 examination was not as well done. PFF continues to be an e-Exam format and a restricted open book format, with Candidates being able to bring in a double-sided A4 page of personal notes for reference.

Question 1 was fairly attempted, and some Candidates were unable to prepare the Statement of Cash Flows using the indirect method.

Most of the Candidates struggled with Question 2 and this question was poorly done, especially the part relating to the preparation of journal entries from the perspective of a lessor.

Candidates also did not perform well for Question 3. A majority of the Candidates were not able to prepare journal entries relating to revenue recognition from contracts with customers and recognition of warrant costs.

The last question covering the effects of changes in foreign exchange rates was fairly attempted.

Section 2
Analysis of individual questions

Question 1

For **Part I**, Candidates were required to prepare a cash flow statement using the direct method. A significant number of Candidates prepared the cash flow statement using the indirect method, or a combination of both methods. This deviation suggests a lack of understanding of the distinction between the direct and indirect methods or a misreading of the question's requirements.

Although overall this question was performed fairly, none of the Candidates achieved a perfect score on this question, and only a few obtained high scores. This indicates a need for further emphasis on the correct application of the direct method in cash flow statement preparation when preparing for this module.

Part II of this question tested the Candidates' understanding of the ethics required of a professional accountant. Many Candidates successfully identified that objectivity and integrity are crucial for maintaining the accounting profession’s reputation. They acknowledged that failure to adhere to these principles could lead to regulatory actions, particularly focusing on objectivity and integrity. However, many did not articulate the underlying reasons. Specifically, they did not mention that actions violating revenue recognition principles could harm non-controlling shareholders' interests.

Question 2

This question relates to leases and impairment of assets under IFRS 16 (Leases) and IAS 36 (Impairment of Assets) respectively. Both question **Parts (a)** and **(b)** were done poorly as majority of Candidates did not pass the questions.

Many Candidates failed to prepare the correct journal entries for the lessor at the inception of the lease. Specifically, there was a frequent omission of the initial sale and the recognition of cost of sales. The correct entry is:

- Dr Lease receivables, Cr Sales
- Dr Cost of sales, Cr inventory

These entries are essential to reflect the transfer of the underlying asset and the recognition of a financial asset representing the lessor's right to receive lease payments.

A notable number of Candidates omitted the option to purchase the ship for $20M when computing the minimum lease payments. As a consequence, incorrect recognition of interest income and repayment of lease receivables was observed for subsequent periods.

Candidates demonstrated proficiency in identifying indicators of impairment.

Question 3

This question covered key areas of financial accounting under IFRS, specifically focusing on revenue recognition, warranty costs, leasehold property, and investment property

For **Part I**: While most Candidates were able to list the necessary journal entries related to revenue recognition accurately, some failed to defer revenue on extended warranty collected in 20x3, indicating a gap in understanding the principles of revenue deferral. The majority of Candidates did not list the actual warranty expenditures incurred, suggesting a lack of attention to detail in tracking and recording warranty costs.

For **Part II**: A significant number of Candidates failed to compute the revaluation amounts for leasehold property correctly. Accurate revaluation is essential for reflecting the fair value of assets in the financial statements.

Although Candidates recognised the need to record journal entries related to revaluation, quite a few incorrectly recorded revaluation gains in the Profit & Loss (P&L) account instead of in equity. According to IFRS, revaluation gains should be recorded in equity, unless they reverse a previous revaluation decrease recognised in P&L.

Question 4

The Candidates' understanding and application of IAS 21 The Effects of Changes in Foreign Exchange Rates was tested in this question.

For **Part (a)**, majority of the Candidates performed well and demonstrated a thorough understanding of the factors influencing the choice of the functional currency. These Candidates effectively explained that the functional currency is determined by the primary economic environment in which the entity operates.

For **Part (b)**, most Candidates correctly used the appropriate exchange rates for the initial recognition of loan payables and share investments. In addition, the correct exchange rates were applied when recording dividends, demonstrating a good grasp of the initial measurement requirements under IAS 21.

However, some Candidates failed to correctly account for changes in the fair value of share investments. And some omitted the accrual of interest payable and the corresponding foreign exchange gain at year end.