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Chartered Accountant SINGAPORE

Singapore CA Qualification Examination

7 December 2023

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 **THIRTEEN (13)** pages (including this instruction sheet). 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 ACRA's regulations. Please note that smart watches, 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 is 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 2023.

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.

ACRA ACCOUNTING AND CORPORATE REGULATORY AUTHORITY

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

e-Exam Question Number	
1	

VERY IMPORTANT NOTICE

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.

Other important information:

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 **NOT ALLOWED** to access any websites during the exam.

6. You are **NOT ALLOWED** 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 6865 9365

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

Question 1 – (a), (b), (c), (d) and (e)

The current abridged financial statements of P Co, S Co and A Co are shown below. P Co has control over S Co and significant influence over A Co.

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

	P Co	**S Co**	**A Co**
Profit before tax	1,589,000	625,000	835,000
Tax	(317,800)	(125,000)	(167,000)
Profit after tax	1,271,200	500,000	668,000
Dividends declared	(80,000)	(90,000)	(100,000)
Retained profit	1,191,200	410,000	568,000
Retained earnings, 1 January 20x6	725,000	550,000	420,000
Retained earnings, 31 December 20x6	1,916,200	960,000	988,000

Abridged Statement of Financial Position as at 31 December 20x6

	P Co	**S Co**	**A Co**
Investment in S Co	1,440,000		
Investment in A Co	690,000		
Amount due from S Co	580,000		
Amount due to P Co		(580,000)	(760,000)
Amount due from A Co	760,000		
Other net assets	446,200	2,460,000	2,368,000
Net assets	3,916,200	1,880,000	1,608,000
Share capital	2,000,000	800,000	620,000
Retained earnings	1,916,200	960,000	988,000
Revaluation reserves		120,000	
Equity	3,916,200	1,880,000	1,608,000

Table A shows the information relating to the investment in S Co and A Co.

Table A: Information relating to the investment in S Co and A Co

	S Co	**A Co**
Date of initial investment by P Co	1 January 20x3	1 March 20x4
Percentage acquired by P Co on initial investment	90%	30%
Percentage divested by P Co on 31 December 20x6	10%	
Percentage held by P Co after divestment on 31 December 20x6	80%	
Shareholders' equity at date of initial investment:		
Share capital	800,000	620,000
Retained earnings	200,000	250,000
Revaluation reserves	90,000	
Shareholders' equity	***1,090,000***	***870,000***
Fair value of non-controlling interests on 1 January 20x3	162,000	

Table B shows the fair value and book value of identifiable net assets of S Co and A Co as at the date of initial investment by P Co.

Table B: Fair value and book value of identifiable net assets of S Co and A Co as at date of initial investment by P Co

	S Co-------------------------→		**A Co-------------------------→**	
	Book value	Fair value	Book value	Fair value
Fixed assets	130,000	150,000		
Provision for claims				(80,000)
Other net assets	960,000	960,000	870,000	870,000
Total net assets	***1,090,000***	***1,110,000***	***870,000***	***790,000***

Additional information relating to P Co, S Co, and A 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 measures investments in S Co and A Co at cost in its separate financial statements.

Additional information relating to P Co:

1. During 20x5, P Co was engaged by S Co to construct a low rise building for S Co for $3 million. The building was completed on 1 July 20x7, with an estimated useful life of ten years. P Co recorded the following revenue and expenses and made the following progress billings to S Co in 20x5 and 20x6. S Co recognised an asset in its books during 20x5 and 20x6 on the basis of the progress billings.

	20x5	**20x6**
Contract revenue for the year	1,020,000	1,690,000
Contract expense for the year	870,000	1,400,000
Progress billings issued during each year	900,000	1,450,000

2. On 31 December 20x6, P Co sold 10% of voting rights in S Co to non-controlling interests for $350,000. The divestment was the last transaction in 20x6 and was reflected in the financial statements. P Co retained 80% voting rights and control in S Co after the divestment. There are no tax effects arising from this transaction.

Additional information relating to S Co:

1. The undervalued fixed assets of S Co had an estimated remaining useful life of 6 years from 1 January 20x3. On 1 January 20x6, the remaining useful life was revised to 2 years.

2. During 20x5, S Co sold inventory to P Co for $120,000 when the original cost was $105,000. After the transfer, the following occurred:
    - % re-sold to third parties during 20x5 40%

•	% re-sold to third parties during 20x6	45%
•	% returned by P Co to S Co in 20x6 under the right-of-return policy	5%
•	% unsold as at 31 December 20x6	10%

3. The balance of revaluation reserves of S Co as at 31 December 20x5 was $175,000.

Additional information relating to A Co:

1. The following events arose with respect to the provision for claims:

•	Actual expensing of claims by A Co in 20x5	50,000
•	Actual expensing of claims by A Co in 20x6	20,000
•	No further expensing of claims by A Co was expected after 20x6.	

2. On 15 March 20x4, P Co issued a loan to A Co to partially finance A Co's construction of a robot for the period from 15 March 20x4 to 30 June 20x5. A Co capitalised the interest charged by P Co of $50,000 and depreciated the capitalised interest over a 2-year period from 1 July 20x5. P Co incurred interest expense of $66,000 during 15 March 20x4 to 30 June 20x5 to finance the loan to A Co.

e-Exam Question Number	**Question 1 required:**
2	**(a)** Ignoring the last transaction in 20x6 which relates to the divestment of ownership interests by P Co to non-controlling interests, prepare all other consolidation journal entries in relation to P Co and its subsidiary S Co for the year ended 31 December 20x6. **(29 marks)**
3	**(b)** Prepare the consolidation journal entry or entries to record the effects of the last transaction in 20x6 which relates to the divestment of ownership interests by P Co to non-controlling interests. Show workings clearly. **(7 marks)**
4	**(c)** Analytically determine the balance of non-controlling interests (proof of balance) of S Co as at 31 December 20x6, after the divestment of ownership interests by P Co to non-controlling interests. The compilation of the listing of consolidation journal entries is <u>not</u> required. **(5 marks)**
5	**(d)** Prepare the equity accounting journal entries in relation to P Co and its associate A Co for the year ended 31 December 20x6. **(9 marks)**
6	**(e)** Analytically determine the balance of investment in A Co (proof of balance) as at 31 December 20x6 in the consolidated financial statements. The compilation of the listing of equity accounting journal entries is <u>not</u> required. **(3 marks)**
	(Total: 53 marks)

Question 2 – Case A and Case B

Case A

On 1 January 20x6, Telco Ltd ("Telco") entered a sales contract with customer, Mr A, with the following terms (all figures are in Singapore dollars):

- Immediate sale of handset or mobile phone
  - Normal price: $800
  - Special price when bundled with subscription of a mobile plan for 24 months: $500
  - Terms of payment and delivery: Immediate payment and collection of mobile phone on 1 January 20x6
  - Mr A opted for the bundled plan with the special price
  - Normal warranty is given on the mobile phone for 1 year

- Provision of mobile services through a mobile plan
  - Under the subscription plan, Mr A enjoys monthly mobile services provided by Telco for 24 months
  - Terms of payment: $50 per month payable at the end of each month over a non-cancellable period of 24 months

- Activation and set-up fee
  - To enable the mobile services under the mobile plan to be operational, customer pays a one-time fee for activation and set-up
  - Normal fee: $150
  - Promotional fee during January 20x6: $100
  - Terms of payment: Immediate non-refundable payment

Ignore taxes and time value of money.

e-Exam Question Number	**Question 2 Case A required:**
7	**(a)** Identify the performance obligations that arise from this contract for Telco Ltd. **(2 marks)**
8	**(b)** Apply the principles of SFRS(I) *15 Revenue from Contracts with Customers* and identify the timing of revenue recognition for Telco Ltd, and provide reasons to justify your answers, for the following activities: i. Sale of the handset; ii. Provision of mobile services; and iii. Activation and set-up. **(4 marks)**
9	**(c)** Determine the total revenue from the contract to be allocated to each performance obligation of Telco Ltd. **(4 marks)**
10	**(d)** Prepare the journal entries to recognise the revenue for the first year from 1 January 20x6 to 31 December 20x6. Monthly transactions can be accumulated into a single transaction. Show workings and breakdown to support your final numbers. Ignore taxes. **(9 marks)**

Case B

On 1 July 20x6, Telco contracted with the Singapore branch of its US supplier Phone Manufacturer Ltd (“PM”) to take delivery of 300 mobile phones at US$300 per phone for US$90,000 from PM on same day. Warranty is provided by PM for 1 year for each mobile phone sold to end user. Prices of the phones for sale to end users are set by PM.

Settlement of US$90,000 to PM by Telco was made on 15 September 20x6.

Excess phones unsold by 30 June 20x7 should be re-sold to PM at US$290 per phone. During the second half of 20x6, Telco was able to sell 80% of the phones on an evenly spread basis. The selling price throughout the period as set by PM was US$320. Telco had not made any returns of the phones in 20x6. The likelihood of unsold phones is immaterially low.

The functional currency of Telco is the Singapore dollar. The exchange rates of S$ to US$1 are shown below.

Date/Period	**S$ to US$1**
1 July 20x6	1.38
Average for 2nd half 20x6	1.34
15 September 20x6	1.32
31 December 20x6	1.25

Ignore taxes.

e-Exam Question Number	**Question 2 Case B required:**
11	**(a)** Applying SFRS(I) 15 *Revenue from Contracts with Customers*, is Telco an agent or principal in its contract with PM? Explain. **(5 marks)**
12	**(b)** Assuming the selling price is close to the net realisable value, determine the lower of cost and net realisable value of a phone in Singapore dollars on 31 December 20x6. **(3 marks)**
13	**(c)** Prepare an extract of the Income Statement in Singapore dollars for the year ended 31 December 20x6 for Telco under each of the two assumptions: i. Telco is a principal in its contract with PM; and ii. Telco is an agent in its contract with PM. Show workings clearly, including any currency translation processes. **(8 marks)** **(Total: 35 marks)**

Question 3 – (a), (b), (c) and (d)

On 1 January 20x1, Issuer Co ("Issuer") issued convertible bonds on the following terms:

- Total proceeds raised: $5,350,000
- Maturity period: 4 years ending on 31 December 20x4
- Principal repayable on the bond: $5,000,000
- Cash interest on bond: 3.5% per annum, payable 31 December
- Effective interest on bond: 5% per annum
- Each $1 of bond is convertible into $1 ordinary share of Issuer

On 31 December 20x1, 50% of convertible bondholders converted the bonds to ordinary shares. Interest was paid before the conversion was made.

On 31 December 20x3, Issuer repurchased the remaining 50% of bonds after the interest was paid. Cash offer of $2,715,970 was accepted by bondholders. The fair value of bonds without the conversion option on 31 December 20x3 was $2,487,981.

Ignore taxes.

e-Exam Question Number	**Question 3 required:**
14	**(a)** Prepare the bond amortisation table from inception to maturity before the conversion and repurchase of bonds. Your amortisation table should include effective interest, unamortised discount and carrying amount. **(3 marks)**
15	**(b)** Show the journal entry on the issue of the convertible bonds on 1 January 20x1. **(3 marks)**
16	**(c)** Show the journal entry on partial conversion of bonds on 31 December 20x1. **(3 marks)**
17	**(d)** Show the journal entry on repurchase of remaining bonds on 31 December 20x3. **(3 marks)** **(Total: 12 marks)**

END OF PAPER