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Chartered Accountant SINGAPORE

Singapore CA Qualification Examination

9 December 2021

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 **TWENTY-FOUR (24)** pages (including this instruction sheet and Appendices A, B and C) and **THREE (3)** EXCEL spreadsheets (Appendices A, B and C). 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 SAC's regulations. Please note that 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 Singapore Accountancy Commission.

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 2021.

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.

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

SINGAPORE ACCOUNTANCY COMMISSION

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 Appendices 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 numbers:
   +65 6100 0516

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

Question 1 – (a), (b), (c) and (d)

On 1 July 20x4, P Co acquired 90% controlling interest in Y Co. On the same date, P Co also entered into a joint venture agreement to incorporate a new entity JV Co in which P Co has a 50% interest. On 31 December 20x6, P Co acquired controlling interest in X Co and its subsidiary Z Co. Details of X Co and Z Co are shown in the last section of this question.

The details of Y Co and JV Co on 1 July 20x4 are as follows:

	Y Co	**JV Co**
Date of investment	1 July 20x4	1 July 20x4
Ownership interest held by P Co	90%	50%
Shareholders' equity at date of investment		
Share capital	2,000,000	6,000,000
Retained earnings	600,000	0
	2,600,000	6,000,000
Non-controlling interests	10%	
Fair value of non-controlling interests of Y Co as at 1 July 20x4		1,000,000

Fair value and book value of identifiable net assets of Y Co on 1 July 20x4 are as follows:

	Y Co---------------------------→	
	Book value	Fair value
Intangible asset	0	2,000,000
Other net assets	2,600,000	2,600,000
Total net assets	2,600,000	4,600,000

Fair value of consideration transferred by P Co to obtain control of Y Co was $10,800,000. P Co paid $3,000,000 to subscribe to an initial share capital of JV Co.

The current financial statements of Y Co and JV Co for the year ended 31 December 20x6 are shown below:

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

	Y Co	**JV Co**
Profit before tax	1,800,000	1,200,000
Tax	(360,000)	(240,000)
Profit after tax	1,440,000	960,000
Dividends declared	(80,000)	(140,000)
Profit retained	1,360,000	820,000
Retained earnings, 1 January 20x6	820,000	530,000
Retained earnings, 31 December 20x6	2,180,000	1,350,000

Abridged Statement of Financial Position as at 31 December 20x6

	Y Co	**JV Co**
Net assets	4,180,000	7,350,000
Share capital	2,000,000	6,000,000
Retained earnings	2,180,000	1,350,000
Equity	4,180,000	7,350,000

Additional information relating to Y Co, JV Co, X Co and Z Co:

1. Apply a tax rate of 20% on fair value differentials and other adjustments. Dividend income received from Y Co and JV Co are tax-exempt.

2. P Co measures non-controlling interests at full fair value on acquisition date.

3. P Co measures the investments in Y Co, JV Co and X Co in its separate financial statements at cost in its separate financial statements.

Additional information relating to Y Co:

1. The intangible asset arising on acquisition date of Y Co had an indefinite useful life. Recoverable amount of the intangible asset was as follows:
   - 31 December 20x5 $1,800,000
   - 31 December 20x6 $2,050,000

2. On 1 July 20x6, Y Co sold its investment property to P Co for $10,000,000 when the original cost was $8,000,000. Y Co used the fair value model to measure the investment property. As at 1 July 20x6, the carrying amount of the investment property was $9,000,000 which was the fair value at the date of transfer. P Co, the buyer, used the property to set up a factory for production purposes and accounted for the property as fixed assets to be carried at cost and depreciated over the remaining useful life of 20 years from 1 July 20x6. The fair value of the property at 31 December 20x6 was $10,700,000.

3. On 31 December 20x6, P Co owed $400,000 to Y Co.

Additional information relating to JV Co:

1. On 1 July 20x5, P Co provided a loan to JV Co for the construction of a factory. The loan to JV Co was financed by a loan to P Co from a third-party bank.

Principal amount of the loan:	$3,000,000
Tenure of the loan:	10 years
Completion of construction of the factory:	30 June 20x6
Estimated useful life of the factory:	15 years

JV Co capitalised interest paid to P Co in accordance with SFRS(I) 1-23 *Borrowing Costs*.

Interest income earned from JV Co and interest expense paid to a third-party bank to finance the loan are as follows:

In P Co's books	**1 Jul 20x5 – 31 Dec 20x5**	**1 Jan 20x6 – 30 Jun 20x6**	**1 Jul 20x6 – 31 Dec 20x6**
Interest income from JV Co	$75,000	$70,000	$68,000
Interest expense on external loan to fund loan to JV Co	$65,000	$62,000	$64,000

2. As at 31 December 20x6, JV Co owed $3 million to P Co.

Additional information relating to X Co and Z Co:

On 31 December 20x6, P Co acquired controlling interest in X Co and its subsidiary Z Co. X Co acquired its subsidiary Z Co on 16 July 20x3. Details of the acquisition and other information relating to X Co and Z Co are shown below.

The following relates to information as of 31 December 20x6:

Percentage interest in X Co acquired by P Co	70%
Percentage interest in Z Co held by X Co	80%
Fair value of consideration paid by P Co for X Co	$12,000,000
Fair value of non-controlling interests of X Co	$2,800,000*
Fair value of direct non-controlling interests of Z Co	$1,000,000
Fair value of unrecognised intangible asset of X Co	$2,500,000
Excess of fair value over book value of inventory of Z Co	$300,000

*Includes direct non-controlling interests of X Co and indirect non-controlling interests of Z Co

Shareholders' equity of X Co and Z Co as at 31 December 20x6:

	X Co	**Z Co**
Share capital	3,000,000	1,000,000
Retained earnings	2,000,000	1,500,000
Equity	5,000,000	2,500,000

The following information relates to amounts recorded by X Co:

- Investment in Z Co reported in X Co's separate statement of financial position on 31 December 20x6 was $3,000,000.
- Goodwill arising from the acquisition of Z Co as reported on the consolidated statement of financial position of X Co on 31 December 20x6 was $1,520,000.

e-Exam Question Number	**Question 1 required:**	
2	**(a)**	Apply Singapore Financial Reporting Standard (International) (SFRS(I)) 3 *Business Combinations* and SFRS(I) 10 *Consolidated Financial Statements* and prepare consolidation adjustments relating to P Co's interest in Y Co for the period ended 31 December 20x6. **(22 marks)**
3	**(b)**	Perform an analytical check (proof of balance) of non-controlling interests of Y Co as at 31 December 20x6. Listing of the entries is not required. **(4 marks)**
4	**(c)**	Apply SFRS(I) 1-28 *Investments in Associates and Joint Ventures* and prepare equity accounting adjustments relating to P Co's interest in JV Co for the period ended 31 December 20x6. (The analytical check (proof of balance) of investment in joint venture is not required.) **(7 marks)**
5	**(d)**	Determine the goodwill arising from the acquisition of X Co and Z Co as at 31 December 20x6. Consolidation adjustments are not required. **(5 marks)**
		(Total: 38 marks)

Question 2 – CASE A and CASE B

CASE A

Lessor Co leased an equipment to Lessee Co Information relating to the lease arrangement are as follows:

Lease inception date	1 January 20x1
Lease term	5 years
Estimated useful life	10 years
Annual lease payment, payable in advance on 1 January at start of year	$150,000
Fair value of equipment as at 1 January 20x1	$1,100,000
Legal costs of lease contract paid in cash	$5,000
Implicit interest rate (known by lessee)	5% p.a.
Residual value at end of lease as estimated on 1 January 20x1	$534,000
Guarantee on residual value given by lessee	$500,000

e-Exam Question Number	**Question 2 CASE A required:**
6	**(a)** Calculate the lease liability as at 1 January 20x1 for Lessee Co in accordance with SFRS(I) 16 *Leases* and prepare the lease amortisation table to show the lease liability balances as at 1 January 20x1, 1 January 20x2 and 1 January 20x3. **(5 marks)**
7	**(b)** Prepare the journal entries for Lessee Co to be passed on 1 January 20x1, 31 December 20x1 and 1 January 20x2 in accordance with SFRS(I) 16 *Leases*. Ignore tax effects. **(6 marks)**
8	**(c)** As at 31 December 20x2, new information arose that resulted in the revision of the estimated residual value of the leased asset at the end of the lease to be $450,000. As at 31 December 20x2, the market interest rate on the remaining tenure of the lease is 6%. What additional entry or entries is required to be passed by the lessee in 20x2 in addition to your entries in **part (b)** in the light of this new information? State the date when the entry or entries must be passed. Ignore tax effects. **(4 marks)**
9	**(d)** Lessor Co classifies a lease as a finance lease if at least one of the following quantitative thresholds is met: • The lease term is for the major part (defined by Lessor Co's internal policy as 75% or more) of the economic life of the underlying asset; or

- The present value of the lease payments amounts to at least substantially all (defined by Lessor Co's internal policy as 90% or more) of the fair value of the underlying asset at inception.

Using the quantitative thresholds of Lessor Co and applying the definition of "lease term" and "lease payments" from SFRS(I) 16 *Leases*, determine if the lease is a finance or operating lease for Lessor Co at inception of the lease.

(3 marks)

CASE B

Company X is a listed company that issued a share-based compensation plan for its employees. The details of the plan are shown below in Table A.

Table A

Grant date of share-based compensation plan	1 July 20x1
Options granted per employee (units)	10,000
Right of each option unit to purchase ordinary share of Company X	1 for 1
Number of employees at grant date	100
Vesting period	5 years
End date of vesting period	30 June 20x6
Exercise price of share per option (also the market price of Company X at grant date)	$7.00
Fair value per option unit at grant date	$1.20
Fair value per option unit at 31 December 20x1	$1.50
Fair value per option unit at 31 December 20x2	$1.00
Options would be forfeited if the employee leaves Company X before end of vesting period	

The grant of the options is conditional on the employee remaining in the company's employment during the vesting period as shown above. The actual and estimated resignations in 20x1 and 20x2 are shown in Table B.

Table B

	20x1	**20x2**
Actual resignation during the year	0	3
Total estimated resignations (including actual resignations) during vesting period	10	15

Company X allows its employees up to two years from end of vesting period to exercise their options.

The information in Table C relates to the year ended 31 December 20x7. Company X does not have any other share issues or potential ordinary shares during 20x7.

Table C

Net profit after tax for the year ended 31 December 20x7	$7,600,000
Issued ordinary shares as at 1 January 20x7	12,000,000
Option units vested and not exercised as at 1 January 20x7	300,000
Option units exercised on 1 July 20x7	120,000
Average market price of Company X during 20x7	$8.50

e-Exam Question Number	**Question 2 CASE B required:**
10	**(a)** Prepare the journal entries to record the effects of the share-based compensation plan for Company X for the years ended 31 December 20x1 and 31 December 20x2 in accordance with SFRS(I) 2 *Share-Based Payments*. State clearly the specific account names in your journal entries and show workings. Ignore tax effects. **(5 marks)**
11	**(b)** Calculate the basic earnings per share for Company X in cents (up to four decimal points) for the year ended 31 December 20x7 in accordance with SFRS(I) 1-33 *Earnings per Share*. **(3 marks)**
12	**(c)** Calculate the diluted earnings per share for Company X in cents (up to four decimal points) for the year ended 31 December 20x7 in accordance with SFRS(I) 1-33 *Earnings per Share*. **(5 marks)** **(Total: 31 marks)**

Question 3 – (a), (b) and (c)

On 16 March 20x5, P Co, as a founding shareholder, incorporated S Co, a new start-up entity. The functional and presentation currency of P Co is the Singapore dollar (S$) while the functional currency of S Co is the United States dollar (US$). The abridged financial statements of S Co for the current year ended 31 December 20x6 in US$ are shown below.

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

	US$
Sales	2,945,000
Cost of sales	
Opening inventory	450,000
Purchases	1,790,000
	2,240,000
Closing inventory	(380,000)
	(1,860,000)
Gross profit	1,085,000
Operating expenses	(340,000)
Depreciation	(140,000)
Profit on sale of fixed assets	100,000
Profit before tax	705,000
Tax expense	(141,000)
Profit after tax	564,000
Dividends declared	(80,000)
Profit retained	484,000
Retained earnings, 1 January 20x6	320,000
Retained earnings, 31 December 20x6	804,000

Abridged Statement of Financial Position of S Co as at 31 December 20x6

	US$
Fixed assets	1,800,000
Inventory	380,000
Accounts receivable	400,000
Cash	399,000
Total Assets	2,979,000

	US$
Accounts payable	350,000
Long-term bank loans	600,000
Share capital	1,120,000
Retained earnings	804,000
Revaluation reserve	105,000
Total Liabilities and Equity	2,979,000

Additional information relating to P Co and S Co:

1. On 16 March 20x5, P Co invested US$900,000 in the initial issued share capital of S Co, a new start-up entity and achieved control through its ownership interest of 90% in S Co. Non-controlling interests of S Co invested US$100,000 in the initial issued share capital of S Co and had ownership interest of 10% in the new entity. All capital contributions were made in cash.

2. On 18 December 20x6, with prospects of growth in the start-up entity, P Co invested an additional US$108,000 in S Co while non-controlling interests invested an additional US$12,000 in S Co. All capital contributions were made in cash.

3. S Co carried its fixed assets at revalued amounts less accumulated depreciation. On 26 November 20x6, a revaluation was carried out generating a revaluation surplus of US$105,000.

4. Dividends were declared and paid in cash on 16 July 20x6.

5. Sales, purchases, operating expenses and other items in the income statement and their related cash flows occurred evenly throughout the year except for profit on the sale of fixed assets which arose at the end of the year. Tax expense was recognised on the date of the underlying income item. Tax expense was settled immediately in cash on its recognition (i.e. tax expense incurred throughout the year was paid throughout the year and tax expense on the profit of sale of fixed assets was paid at the end of the year). Tax rate is 20%.

6. Long-term bank loans were partially settled in cash on 31 December 20x6, funded partially from the proceeds of the sale of fixed assets, received in cash, at year-end.

7. As at 31 December 20x5, the cumulative foreign currency translation reserve accumulated in other comprehensive income and arising from S Co's book value of equity was a debit balance of S$80,000.

8. During 20x6, S Co recorded the following movements in its cash account in US$.

Cash	**US$**
Balance, 1 January 20x6	35,000
Collections from accounts receivable	2,835,000
Payments to accounts payable	(1,860,000)
Proceeds from sale of fixed assets	300,000
Repayment of long-term bank loan	(470,000)
Payment of operating expenses	(340,000)
Payment of tax expense	(141,000)
Payment of dividends	(80,000)
Share capital contribution received	120,000
Balance, 31 December 20x6	399,000

9. The movements in accounts receivable and accounts payable in US$ during 20x6 are as follows:

Accounts payable	**US$**
Balance, 1 January 20x6	420,000
Purchases	1,790,000

Payments	(1,860,000)
Balance, 31 December 20x6	350,000

Accounts receivable	**US$**
Balance, 1 January 20x6	290,000
Sales	2,945,000
Collections	(2,835,000)
Balance, 31 December 20x6	400,000

10. The exchange rates of S$ to US$1 are shown below.

Date/Period	**S$ to US$1**
16 March 20x5	1.29
Average for 20x5	1.25
Average rate in opening inventory	1.24
31 December 20x5	1.21
Average rate for 20x6	1.28
16 July 20x6	1.27
26 November 20x6	1.31
18 December 20x6	1.30
Average rate in closing inventory	1.32
31 December 20x6	1.33

e-Exam Question Number	Question 3 required:
13	**(a)** Translate the financial statements of S 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 use the template provided in Appendix A. The exchange rates are also reproduced in Appendix A. **(11 marks)**
14	**(b)** For the purposes of preparing the Consolidated Cash Flow Statement, translate the cash movement of S Co from US$ to 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 use the template provided in Appendix B. The exchange rates are also reproduced in Appendix B. **(4 marks)**
15	**(c)** Using your answers above and information in the question, complete the consolidated cash flow statement for P Co and its group in Appendix C for the year ended 31 December 20x6, together with the consolidation adjustments, in accordance with the requirements of SFRS(I) 1-7 *Statement of Cash Flows*, SFRS(I) 10 *Consolidated Financial Statements* and SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*. P Co recognised dividend income as an operating cash flow. **(16 marks)** **(Total: 31 marks)**

APPENDIX A

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

	US$	Rate	S$
Sales	2,945,000		
Cost of sales			
Opening inventory	450,000		
Purchases	1,790,000		
	2,240,000		
Closing inventory	(380,000)		
	(1,860,000)		
Gross profit	1,085,000		
Operating expenses	(340,000)		
Depreciation	(140,000)		
Profit on sale of fixed assets	100,000		
Profit before tax	705,000		
Tax expense	(141,000)		
Profit after tax	564,000		
Dividends declared	(80,000)		
Profit retained	484,000		
Retained earnings, 1 January 20x6	320,000		
Retained earnings, 31 December 20x6	804,000		

Abridged Statement of Financial Position as at 31 December 20x6

	US$	Rate	S$
Fixed assets	1,800,000		
Inventory	380,000		
Accounts receivable	400,000		
Cash	399,000		
Total Assets	2,979,000		
Accounts payable	350,000		
Long-term bank loans	600,000		
Share capital	1,120,000		
Retained earnings	804,000		
Revaluation reserve	105,000		
Total Liabilities and Equity	2,979,000		

Date/Periods	S$ to US$1
16 March 20x5	1.29
Average for 20x5	1.25
Average rate in opening inventory	1.24
31 December 20x5	1.21
Average rate for 20x6	1.28
16 July 20x6	1.27
26 November 20x6	1.31
18 December 20x6	1.3
Average rate in closing inventory	1.32
31 December 20x6	1.33

APPENDIX B

Cash	US$	Rate	S$
Balance, 1 January 20x6	35,000		
Collections from accounts receivable	2,835,000		
Payments to accounts payable	(1,860,000)		
Proceeds from sale of fixed assets	300,000		
Repayment of long-term bank loan	(470,000)		
Payment of operating expenses	(340,000)		
Payment of tax expense	(141,000)		
Payment of dividends	(80,000)		
Share capital contribution received	120,000		
Balance, 31 December 20x6	399,000		

Date/Periods	S$ to US$1
16 March 20x5	1.29
Average for 20x5	1.25
Average rate in opening inventory	1.24
31 December 20x5	1.21
Average rate for 20x6	1.28
16 July 20x6	1.27
26 November 20x6	1.31
18 December 20x6	1.3
Average rate in closing inventory	1.32
31 December 20x6	1.33

APPENDIX C

(You may add new lines as required)

Consolidated cash flow statement

	P Co S$	S Co S$	Consolidation DR	Adjustments CR	Consolidated Cash Flows
Net Profit after tax	1,350,000				
Add back non-cash items					
Depreciation	390,000				
Decrease (increase) in working capital					
Inventory	(320,000)				
Accounts receivable	(120,000)				
Accounts payable	79,000				
Cash flows from operations	1,379,000				
Cash flows from / (used for) investing activities					
Additional investment in S Co	(140,400)				
	(140,400)				
Cash flows from / (used for) financing activities					
Dividends declared	(150,000)				

	(150,000)
Change in cash and cash equivalents	1,088,600
Cash and cash equivalents, 1 January	239,800
Cash and cash equivalents, 31 December	1,328,400

END OF PAPER