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Chartered Accountant SINGAPORE

Singapore CA Qualification Examination

8 December 2022

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 (20)** pages (including this instruction sheet, Appendices A and B) and **TWO (2)** EXCEL spreadsheets (Appendices A and B). 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 2022.

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	
	****VERY IMPORTANT NOTICE****
1	1. Your question paper is attached under the **"Resources"** tab found at the bottom right of **EACH** question.

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 number:
   +65 6100 0516
8. **You do not need fill in an answer for this question.**

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

The current abridged financial statements of P Co and its investees S Co and A Co are shown below. P Co has a direct controlling interest in S Co. A Co was previously an associate until a partial divestment by P Co of its interests in A Co resulting in the loss of significant influence in A Co on 31 December 20x6.

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	1,760,000	1,200,000	1,450,000
Tax	(352,000)	(240,000)	(290,000)
Profit after tax	1,408,000	960,000	1,160,000
Dividends declared	(156,000)	(140,000)	(200,000)
Retained profit	1,252,000	820,000	960,000
Retained earnings, 1 January 20x6	765,000	450,000	820,000
Retained earnings, 31 December 20x6	2,017,000	1,270,000	1,780,000

Abridged Statement of Financial Position as at 31 December 20x6			
	P Co	**S Co**	**A Co**
Investment in S Co	1,300,000		
Investment in A Co	300,000		
Amount due from S Co	60,000		
Amount due to P Co		(60,000)	(77,000)
Amount due from A Co	77,000		
Other net assets	1,280,000	1,950,000	2,657,000
Net assets	***3,017,000***	***1,890,000***	***2,580,000***
Share capital	1,000,000	620,000	800,000
Retained earnings	2,017,000	1,270,000	1,780,000
Equity	***3,017,000***	***1,890,000***	***2,580,000***

Table A below presents the information on the ownership interests held by P Co in S Co and A Co and the change in ownership interest in A Co following a partial divestment by P Co.

Table A: Information on Ownership Interests

	S Co	**A Co**
Acquisition		
Date of acquisition by P Co	1 January 20x3	1 January 20x4
Ownership interest acquired by P Co on date of acquisition	90%	30%
Divestment		
Date of partial divestment by P Co		31 December 20x6
Ownership interest divested by P Co		20%
Ownership interest retained by P Co		10%

Table B shows the information relating to shareholders' equity and non-controlling interests at the acquisition date.

Table B: Information on Shareholders' equity and Non-controlling interests

	S Co	**A Co**
Shareholders' equity on acquisition date		
Share capital	620,000	800,000
Retained earnings	355,000	520,000
	975,000	***1,320,000***
Fair value of non-controlling interests on 1 January 20x3	130,000	

Table C shows the fair value and book value of identifiable net assets as at the date of acquisition.

Table C: Fair value and book value of identifiable net assets as at date of acquisition

	S Co-------------------------->		**A Co-------------------------->**	
	Book value	Fair value	Book value	Fair value
Intangible assets	120,000	250,000		
Provision for claims			0	(30,000)
Other net assets	855,000	855,000	1,320,000	1,320,000
Total net assets	***975,000***	***1,105,000***	***1,320,000***	***1,290,000***

Additional information relating to P Co, S Co and A Co:

1. Apply a tax rate of 20% on fair value differentials and other adjustments. Dividend income received and gain or loss on the divestment of ownership interests are tax-exempt.

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

3. P Co measures investments in subsidiaries and associates in its separate financial statements at cost. The Statement of Financial Position on 31 December 20x6 shows retained investment in A Co at cost prior to year-end remeasurement gain or loss.

Additional information relating to P Co:

1. On 31 December 20x6, P Co sold 20% ownership interest in A Co to third parties for $1,000,000. This is the last transaction in the year in relation to A Co. Fair value of the retained interest of 10% is $500,000.

2. On 1 July 20x6, P Co transferred its investment property to S Co at the transfer price of $400,000 when the carrying amount was $360,000. The fair value of the investment property on 31 December 20x6 was $600,000. The remaining useful life of the investment property at the date of transfer was 20 years. The Group, P Co and S Co apply the fair value model as the accounting policy in the measurement of investment properties in accordance with SFRS(I) 1-40 *Investment Property*.

Additional information relating to S Co:

1. The remaining useful life of the undervalued intangible asset was 10 years on the acquisition date, 1 January 20x3. On 31 December 20x5, the recoverable amount of the intangible asset was $100,000.

2. During August 20x6, S Co sold inventory to P Co for $146,000 when the original cost was $179,000. The fair value of the inventory (close to its net realisable value) was $160,000 at the date of transfer. Subsequently:

• Re-sale by P Co to third parties:	
○ During 20x6	60%
• Remaining on 31 December 20x6	40%

Additional information relating to A Co:

1. The provision for claims of A Co was settled as follows:

Event	Amount
Actual claims expensed by A Co in 20x5	$25,000
Actual claims expensed by A Co in 20x6	$20,000

2. On 8 October 20x5, A Co sold inventory to P Co at the transfer price of $130,000 when the original cost was $120,000. Subsequently:

• % re-sold in 20x5	60%
• % re-sold in 20x6	30%
• % unsold as at 31 December 20x6	10%

3. The loss of significant influence over A Co is the last event of 20x6. All other transactions relating to A Co for 20x6 occurred before this event.

e-Exam Question Number	**Question 1 required:**
	Apply Singapore Financial Reporting Standard (International) (SFRS(I)) 3 *Business Combinations*, SFRS(I) 10 *Consolidated Financial Statements* and SFRS(I) 1-28 *Investments in Associates and Joint Ventures* and answer the following:
2	**(a)** Prepare the consolidation journal entries in relation to S Co for the year ended 31 December 20x6. **(25 marks)**
3	**(b)** Analytically determine the balance of non-controlling interests (proof of balance) as at 31 December 20x6. The compilation of the listing of consolidation journal entries is <u>not</u> required. **(4 marks)**
4	**(c)** Prepare the equity accounting adjustments in relation to A Co for the year ended 31 December 20x6, prior to the loss of significant influence on 31 December 20x6. **(7 marks)**
5	**(d)** Analytically determine the balance of the Investment in Associate (proof of balance), prior to the loss of significant influence, on 31 December 20x6. The compilation of the listing of equity accounting entries is <u>not</u> required. **(3 marks)**
6	**(e)** Using your calculations above and relevant information, calculate the profit (loss) on sale and remeasurement gain (loss) for P Co's Group arising from the loss of significant influence over A Co as at 31 December 20x6. Journal entries are <u>not</u> required. **(3 marks)**
	(Total: 42 marks)

Question 2 – Case A and Case B

Case A

F&B Limited is engaged in a range of food and beverage activities, including online and external catering, sale of groceries, provision of chef services for cook at site engagements and dining-in services at its café and restaurant.

Details of the operating segments of F&B Limited are shown below and reproduced in identical form in Appendix A.

	Groceries	Café	Restaurant	Chef Services	External Catering	Online	Total
External sales	10,000	75,000	120,000	20,000	80,000	300,000	605,000
Internal sales	220,000			60,000			280,000
Combined sales	230,000	75,000	120,000	80,000	80,000	300,000	885,000
Net profit (loss)	20,000	2,400	(4,500)	6,000	(18,000)	38,000	43,900
Total assets	920,000	120,000	280,000	68,000	156,000	130,000	1,674,000

e-Exam Question Number	**Question 2 Case A required:**
7	**(a)** Identify the reportable segments of F&B Limited in accordance with all the quantitative thresholds of SFRS(I) 8 *Operating Segments*. For consistency, calculate the percentages (up to one decimal point) for all thresholds. You may present your answer on Appendix A. **(7 marks)**
8	**(b)** Present the quantitative footnote disclosure on segment revenues for F&B Limited in accordance with the requirements of SFRS(I) 8 *Operating Segments*. Disclosures on segment profit and loss and segment assets are not required. You may present your answer on Appendix A. **(3 marks)**

Case B

The following information relates to the capital structure of C Ltd, a publicly listed company as at 1 January 20x6 and events and net profit of C Ltd for the year ended 31 December 20x6.

Share capital structure as at 1 January 20x6:

- Issued ordinary share capital: 10,000,000 ordinary shares.
- Issued 6% preference share capital: 1,000,000 preference shares, convertible to ordinary shares on a ratio of two preference shares for one ordinary share.

Events during the year ended 31 December 20x6:

Date	Events
1 April 20x6	C Ltd settled the purchase of a building by issuing 200,000 ordinary shares to the former owners of the building.
1 July 20x6	30% of preference shareholders exercised their conversion option. The shareholders were paid their dividends on a pro-rated basis for the period up to the conversion date.
31 December 20x6	6% dividends were paid to the remaining preference shareholders. 4% dividends were paid to ordinary shareholders. All dividends paid during the year were tax-exempt. Net profit after tax for 20x6 was $2,500,000.

e-Exam Question Number	**Question 2 Case B required:**
9	**(a)** Calculate the Basic Earnings per Share of C Ltd for the year ended 31 December 20x6 in accordance with the requirements of SFRS(I) 1-33 *Earnings per Share*. Present your answer in $ to four decimal points. **(5 marks)**
10	**(b)** Calculate the Diluted Earnings per Share of C Ltd for the year ended 31 December 20x6 in accordance with the requirements of SFRS(I) 1-33 *Earnings per Share*. Present your answer in $ to four decimal points. **(5 marks)**
11	**(c)** Assume a new event arose for C Ltd on 31 December 20x6. On that date, C Ltd announced to its staff of expected lay-offs arising from downsizing. C Ltd did not make any promise of retrenchment payments and neither did C Ltd have any contractual obligation to make retrenchment payments but it has consistently done so in the past. On 15 January 20x7, C Ltd paid $1,500,000 in retrenchment payments to affected employees. The annual accounts for the year ended 31 December 20x6 was authorised for issue on 30 January 20x7. Evaluate, whether and how, the Diluted Earnings per Share of C Ltd for the year ended 31 December 20x6 will be affected. If you conclude there is no change, state so and why. If you conclude there is a change, show the new Diluted Earnings per Share for the year ended 31 December 20x6 and explain the change. Ignore tax effects. **(5 marks)** **(Total: 25 marks)**

Question 3 – Case A, Case B and Case C

Case A

On 1 January 20x6, B Co issued 10 million units of Mandatorily Redeemable Preference Shares (MRPS) for US$10 million. The 3-year MRPS are mandatorily redeemable by B Co on 31 December 20x8 at the principal amount. Holders of the MRPS do not have the right to convert the MRPS to ordinary shares. The MRPS dividend rate of 4% per annum, payable on 31 December of each year, is the same rate as the effective interest rate paid by B Co on a 3-year bond instrument.

The functional currency of B Co is the Singapore dollar (S$). The exchange rates in 20x6 are as follows:

Date/Period	**S$ to US$ 1**
1 January 20x6	1.40
Average rate for 20x6	1.35
31 December 20x6	1.30

Ignore taxes.

e-Exam Question Number	**Question 3 Case A required:**
12	**(a)** Explain whether the MRPS is equity or liability for the issuer in accordance with SFRS(I) 1-32 *Financial Instruments: Presentation*. **(3 marks)**
13	**(b)** Prepare the journal entries for all transactions relating to the MRPS for the year ended 31 December 20x6 in Singapore dollars (S$). **(6 marks)**

Case B

To raise funds for its medium-term needs, Pluto Co issued a 3-year convertible bond on 1 January 20x6. Each dollar of the bond is convertible to one ordinary share of Pluto Co. The bond principal will be repayable on 31 December 20x8, if unconverted.

The details of the issue are as follows:

Item	**Amount**
Total proceeds from the issue	5,450,000
Principal amount of the bond issue	5,000,000
Coupon interest rate payable on 31 December of each year on the unconverted principal	3% p.a.
Effective interest rate on the bond	4.5% p.a.
Present value of the bond discounted at the effective interest rate on 1 January 20x6	4,793,828

On 31 December 20x7, 60% of the bonds were converted to ordinary shares. Interest for 20x7 was paid before the conversion was effected.

Ignore tax effects.

e-Exam Question Number	**Question 3 Case B required:**
14	**(a)** Prepare the bond amortisation table from 1 January 20x6 to 31 December 20x7 (prior to conversion). **(4 marks)**
15	**(b)** Prepare the journal entries for the following transactions: **(i)** Issue of the bond on 1 January 20x6 **(2 marks)** **(ii)** Interest expense for the year ended 31 December 20x6 **(2 marks)** **(iii)** Conversion of the bond on 31 December 20x7 **(2 marks)**

Case C

K Co had a floating rate loan payable of $10 million. With rising interest rates following the threat of significant inflation globally in the post-pandemic era, K Co was concerned with the increase in the interest burden from its floating rate loan and decided to enter into a swap transaction with L Co on 1 January 20x6. Under the swap, K Co agrees to pay a fixed interest of 2% per annum on a notional amount of $10 million to L Co in exchange for a floating interest rate to be received from L Co at a benchmarked floating rate plus 25 basis points per annum. The swap maturity date is 31 December 20x6 which is also the financial year end of K Co. Under the agreement, K Co and L Co will settle net swap payments or receive net swap receipts at the end of each quarter (e.g. 30 June), based on floating interest rates at the beginning of that quarter (e.g. 1 April).

The benchmarked floating rate plus 25 basis points per annum and per quarter as at the following dates are as follows:

	Per annum	**Per quarter**
1 January 20x6	2.00%	0.5%
1 April 20x6	2.50%	0.625%
1 July 20x6	1.85%	0.4625%
1 October 20x6	2.25%	0.5625%

The following table shows the present value of an ordinary annuity of $1 per period for *N* periods for each quarterly interest rate (*r*).

	r			
	0.5000%	0.6250%	0.4625%	0.5625%
Periods to maturity (*N*)				
4	3.9505	3.9383	3.9542	3.9444
3	2.9702	2.9629	2.9725	2.9666
2	1.9851	1.9814	1.9862	1.9833
1	0.9950	0.9938	0.9954	0.9944

Present value of an ordinary annuity of $1: $[1-1/(1+r)^N]/r$

K Co wishes to assess the effects of the swap and requires your assistance to complete Table A and Table B which are reproduced in identical form in Appendix B.

TABLE A: Swap Valuation of K Co

Date	Benchmark rate + 25 bp per quarter	Receive floating	Pay fixed	Net receipt (payment)	Swap asset (liability)
1 January 20x6	0.5000%				
31 March 20x6	0.6250%		(50,000)		
30 June 20x6	0.4625%		(50,000)		
30 September 20x6	0.5625%		(50,000)		
31 December 20x6			(50,000)		

TABLE B: Extracts of Financial Statements of K Co
For the half-year ended 30 June 20x6

Extracts of the Income statement for the half-year ended 30 June 20x6
$
Interest income (expense)
Fair value gain (loss)
Extracts of the Statement of Financial Position as at 30 June 20x6
$
Net assets
Swap asset (liability)
Cash
Equity
Retained earnings
Other comprehensive income

e-Exam Question Number	**Question 3 Case C required:**
16	**(a)** Explain the type of hedging relationship that the swap transaction has with the floating rate loan of K Co in accordance with SFRS(I) 9 *Financial Instruments*. **(3 marks)**
17	**(b)** Complete Table A: Swap Valuation of K Co for each of the dates indicated. Assume that the initial fair value of the swap is zero and that the latest known rate will continue to prevail for the remaining periods to maturity (flat yield curve assumption). You may use the template in Appendix B. **(5 marks)**
18	**(c)** Complete Table B: "Extracts of the Financial Statements of K Co for the half-year ended 30 June 20x6" for the effects of the swap on the loan in accordance with SFRS(I) 9 *Financial Instruments*. If the financial effect is zero for a particular item, indicate it as such. Interest on the floating rate loan is paid at the end of each quarter based on the same benchmarked interest rate plus 25 basis points at the beginning of each quarter. Ignore taxes. You may use the template in Appendix B. **(6 marks)** **(Total: 33 marks)**

END OF PAPER

APPENDIX A

	Groceries	Café	Restaurant	Chef Services	External Catering	Online	Total
External sales	10,000	75,000	120,000	20,000	80,000	300,000	605,000
Internal sales	220,000			60,000			280,000
Combined sales	230,000	75,000	120,000	80,000	80,000	300,000	885,000
Net profit (loss)	20,000	2,400	(4,500)	6,000	(18,000)	38,000	43,900
Total assets	920,000	120,000	280,000	68,000	156,000	130,000	1,674,000

APPENDIX B

TABLE A: Swap Valuation of K Co

Date	**Benchmark rate + 25 bp per quarter**	**Receive floating**	**Pay fixed**	**Net receipt (payment)**	**Swap asset (liability)**
1 January 20x6	0.5000%				
31 March 20x6	0.6250%		(50,000)		
30 June 20x6	0.4625%		(50,000)		
30 September 20x6	0.5625%		(50,000)		
31 December 20x6			(50,000)		

TABLE B: Extracts of Financial Statements of K Co
For the half-year ended 30 June 20x6

Extracts of the Income statement for the half-year ended 30 June 20x6	
	$
Interest income (expense)	
Fair value gain (loss)	
Extracts of the Statement of Financial Position as at 30 June 20x6	
	$
Net assets	
Swap asset (liability)	
Cash	
Equity	
Retained earnings	
Other comprehensive income	