FP

Chartered Accountant
SINGAPORE

Singapore CA Qualification (Foundation) Examination

8 December 2021

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 **SEVENTEEN (17)** pages (including this instruction sheet and Appendix A). 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 SAC's regulations. Please note that watches, mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination.

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 Singapore Accountancy Commission.

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 2021.

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	
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1	1. Your question paper is attached under the **"Resource"** tab found at the bottom right of **EACH** question.

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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 6100 0516

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

Question 1 – (a) and (b)

Below is the unadjusted trial balance of Aero Pte Ltd (Aero) as of 31 December 20x1:

	Dr $'000	Cr $'000
Sales		8,198
Purchases	4,285	
Return inwards	136	
Return outwards		174
Carriage inwards	284	
Selling and distribution expenses	1,574	
Administrative and other expenses	717	
Interest expense	207	
Share capital		1,500
Dividends paid	250	
Retaining earnings		602
Equipment (cost)	2,800	
Furniture and fittings (cost)	650	
Equipment (accumulated depreciation)		840
Furniture and fittings (accumulated depreciation)		390
Inventories (1 Jan 20x1)	472	
Quoted shares	310	
Fixed deposits (maturity exceeding 12 months)	1,200	
Bank balance	1,331	
Cash in hand	24	
Trade receivables	1,847	
Trade payables		1,408
Deferred tax liabilities		175
Borrowings		2,800
	16,087	16,087

The following information relates to the financial year ended 31 December 20x1 (FY20x1):

(1) Aero's policy is to depreciate its non-current assets using the straight-line method at annual rates on cost as follows:

   a) Equipment ^ = 15%
   b) Furniture and fittings ^ = 20%

   Depreciation for FY20x1 has not been recorded yet.

   ^ 60% shall be allocated to the cost of sales and the remainder to selling and distribution expenses.

(2) Annual wage supplement (which should be classified under administrative and other expenses) amounting to $120,000 is payable on 31 January 20x2. This has not been accrued as of 31 December 20x1.

(3) The fixed deposit was placed on 1 April 20x1 and matures 36 months later. It earns an interest of 1% per annum, which should be classified as other income and has not been recorded.

(4) As of 31 December 20x1, inventory as per the system is $608,000. Of this, $38,000 is obsolete. The estimated selling price of these inventories is $12,000, and the estimated costs necessary to make the sale is $1,000. Any write-down should be recognised as the cost of sales.

(5) The investment in quoted shares (i.e. 100,000 shares in Amber Limited) was acquired at $310,000 during FY20x1. Management has elected to measure all equity investments at fair value through other comprehensive income because it is not held for trading. As of 31 December 20x1, the fair value of Amber shares is $335,000, and the cost of disposal is $3,000. A dividend of $0.20 per share (which should be classified as other income) was approved at the annual general meeting on 5 December 20x1 and payable on 5 January 20x2. The fair value change and declared dividends of the investment have not been recorded.

(6) The expected credit loss on trade receivables assessed by Management as of 31 December 20x1 is estimated to be $85,000. This loss allowance has not been recorded and should be charged to administrative and other expenses.

(7) Current income tax payable determined by Aero's tax agent for FY20x1 is estimated to be $87,000, and deferred tax liabilities should be adjusted upwards to $11,000.

(8) $800,000 of the borrowings is payable on 15 March 20x2. The balance is due on 30 June 20x4.

Except for item (7) above, ignore the effects of income tax arising from all the other events and/or transactions.

e-Exam Question Number	Question 1 required:
2	**(a)** Prepare the Statement of Profit or Loss and Other Comprehensive Income for Aero Pte Ltd for the financial year ended 31 December 20x1 in accordance with SFRS(I) 1-1 *Presentation of Financial Statements* and all relevant accounting standards. Show all necessary workings. **(14 marks)**
3	**(b)** Prepare the Statement of Financial Position for Aero Pte Ltd as at 31 December 20x1 in accordance with SFRS(I) 1-1 *Presentation of Financial Statements* and all relevant accounting standards. Show all necessary workings. **(15 marks)** **(Total: 29 marks)**

Question 2 – (a), (b) and (c)

Onyx Pte Ltd (Onyx) (whose functional currency is Singapore Dollars (S$) maintains two bank accounts of different currencies - Malaysian Ringgits (RM$) and S$. As of 1 January 20x2, the RM$ bank balance is RM$830,000, and inventories is S$24,000. Onyx entered into the following transactions during the financial year ended 31 December 20x2:

- 18 January: Sold goods on credit terms to Chili Pte Ltd for RM$150,000. The cost of goods sold is S$24,000.
- 6 February: Purchased goods from Peach Pte Ltd for RM$60,000 on credit terms.
- 15 March: Bought a commercial property located in Kuala Lumpur for RM$1,500,000. A 20% down payment was made immediately, and the balance was funded via a mortgage (denominated in RM$).
- 10 June: Sold half the goods purchased from Peach Pte Ltd for RM$95,000 cash.
- 7 August: Collected RM$100,000 from Chili Pte Ltd for settlement of trade receivable.
- 30 November: Interest paid and principal repayment amounting to RM$12,000 and RM$40,000 respectively, relating to the mortgage were paid.

The commercial property located in Kuala Lumpur is held to earn rental income, and the fair value as of 31 December 20x2 is RM$1,800,000. Onyx adopts the fair value model for investment property, and it maintains a perpetual inventory system.

Exchange rates:

Date	1 S$ to RM$
1 January 20x2	3.001
18 January 20x2	3.050
6 February 20x2	3.310
15 March 20x2	3.359
10 June 20x2	3.281

7 August 20x2	3.203
3 September 20x2	3.222
30 November 20x2	3.195
31 December 20x2	3.208

Foreign currency monetary balances are revalued at the end of the year. Ignore the effects of income tax arising from these transactions and events.

e-Exam Question Number	Question 2 required:
4	**(a)** Record the journal entries for Onyx from 1 January 20x2 to 31 December 20x2 in accordance with SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates* and SFRS(I) 1-40 *Investment Property*. Show all necessary workings. Round your answers to the nearest dollar. **(19 marks)**
5	**(b)** Identify any THREE primary or secondary factors Onyx should consider in determining its functional currency. **(3 marks)**
6	**(c)** The Management of Onyx intends to construct and sell a residential property located in Penang, Malaysia. In doing so, it needs to borrow a significant amount of funds. Explain how interest incurred in connection with the construction of the residential property located in Penang should be accounted for in accordance with SFRS(I) 1-23 *Borrowing Costs*. This property will only be sold on completion. **(4 marks)** **(Total: 26 marks)**

Question 3 – (a), (b) and (c)

Beige Pte Ltd (Beige, a GST-registered company with a financial year-end of 30 September) is a local professional service firm. It offers SME clients three different types of services and typically charges the services on a standalone basis on the following rates:

- Corporate secretarial services = $1,200 per annum
- Corporate income tax = $2,000 per year of assessment
- Compilation of financial statements = $2,800 per financial year

Revenue from corporate secretarial services is recorded at the end of the financial year based on the months over which secretarial work is performed. On the other hand, revenue from corporate income tax and compilation of financial statements are recorded after the client's tax return and financial statements have been prepared.

On 10 April 20x0, Beige entered into a contract with a client, Orange Pte Ltd (Orange) for a bundle price of $4,500 to perform all three professional services. A bill for $2,000 was raised immediately, and this was settled in full one month later.

Corporate secretarial services commenced on 1 May 20x0, and the financial statements were prepared and submitted to Orange on 5 July 20x0. A bill for the remaining balance of $2,500 was rendered to Orange on 15 July 20x0.

On 4 August 20x0, Beige submitted Orange's corporate income tax return to the Inland Revenue Authority of Singapore. The outstanding amount due from Orange was settled the next day.

A credit note amounting to $300 was issued by Beige on 8 September 20x0 because of a dispute raised by another client (Purple Pte Ltd) for services previously rendered in March 20x0.

All values stated above are exclusive of 7% GST (Goods and Services Tax). GST returns are filed at the end of each calendar quarter, and any input/output tax is settled

immediately. Ignore the effects of income tax arising from these transactions and events.

e-Exam Question Number	Question 3 required:
7	**(a)** Record the journal entries from 1 April 20x0 to 30 September 20x0 in accordance with SFRS(I) 15 *Revenue from Contracts with Customers* and relevant tax regulations. Show all necessary workings. Round your answers to the nearest dollar. **(15 marks)**
8	**(b)** Discuss how compliance with SFRS(I) when preparing financial statements ensure accountants meet the code of professional conduct and ethics. **(4 marks)**
9	**(c)** A number of different measurement bases are employed in financial statements. Other than the historical cost, describe TWO other measurement bases that are allowed under the Conceptual Framework for Financial Reporting. Give an example of either an asset or a liability that uses each of the identified measurement bases. **(8 marks)** **(Total: 27 marks)**

Question 4 – (a) and (b)

Cyan Pte Ltd (Cyan) entered into a non-cancellable contract on 1 January 20x5 to rent a factory that is to be used to manufacture its flagship product AUM-Z43.

A refundable security deposit of $30,000 was paid initially, and $80,000 is payable on 31 December each year over the next five years. At the end of the five years, Cyan is obligated to reinstate the factory premise, and this is estimated to be $50,000.

The cost model is used to account for right-of-use assets, and Management has decided to adopt the straight-line method to compute depreciation. Depreciation expense, which is recorded at the end of each financial year, i.e. 31 December, is not allowed for income tax purposes. Instead, Cyan is eligible to claim tax allowance^ as follows:

- 1st year = 15%
- 2nd year = 35%
- 3rd year = 35%
- 4th year = 15%

^ For the avoidance of doubt, the tax basis here is not intended to be consistent with tax treatment allowed by IRAS.

Cyan's incremental borrowing rate is 5% per annum, and the corporate tax rate is 17%.

e-Exam Question Number	Question 4 required:
10	**(a)** Record the journal entries for Cyan from 1 January 20x5 to 31 December 20x6 in accordance with SFRS(I) 16 Leases, SFRS(I) 1-16 *Property, Plant and Equipment* and SFRS(I) 1-12 *Income Taxes*. Show all necessary workings. Round your answers to the nearest dollar. **(14 marks)**
11	**(b)** During the financial year of 20x7, demand for product AUM-Z43 declined significantly due to a severe economic recession. Describe how the above event during the financial year of 20x7 should be dealt with by Cyan, specifically in relation to SFRS(I) 1-36 *Impairment of Assets*. No journal entries are required. **(4 marks)** **(Total: 18 marks)**

END OF PAPER

Appendix A - Common verbs used by the Examiners

Verb	Description
Calculate / Compute	Do the number crunching and derive the correct answer. Make sure that you write down your workings and crosscheck your numbers.
Describe	**Describe** requires you to provide the characteristics and features of an item or situation. For instance, "**Describe** the audit procedures to verify …" requires you to **state** the specific audit procedure/s that you would use without going into step-by-step **detail** of how to perform that procedure.
Discuss	**Discuss** requires you to provide the for and against arguments, you cannot have a discussion without opposing views otherwise it would be just a conversation. If **discuss** is placed near the front of the instruction, then it requires you to provide an answer that is similar to **explain**, but addresses both the for and against arguments. For instance, "**Discuss** why numerical valuation is essential when buying or selling a small business".
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.
Identify	**Identify** is similar to **list**, but requires you to also provide an **explanation** as to why the item/s that you have **identified** is/are relevant to the facts given in the question.
In accordance with	This instruction requires you to relate your answer back to a specific document. Failure to make specific mention of the document in your answer will result in a loss of marks.
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.
Record	**Record** is similar to **prepare** in that you may need to perform a calculation and show the specific components in an appropriate format.

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