



Singapore CA Qualification (Foundation) Examination

7 June 2022

Advanced 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 **TWENTY-TWO (22)** 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 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.

****VERY IMPORTANT NOTICE****

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

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)

The following are the summarised financial statements of Hallmark's group of companies:

	Hallmark	Sturdee	Arena
	\$'000	\$'000	\$'000
Sales	124,685	44,861	35,889
Cost of sales	(81,683)	(31,413)	(21,989)
Gross profit	43,002	13,448	13,900
Other income	3,813	1,298	649
Operating expenses	(30,992)	(11,863)	(5,932)
Interest expenses	(3,596)	(116)	(232)
Profit before tax	12,227	2,767	8,385
Tax expense	(4,696)	(607)	(2,095)
Profit after tax	7,531	2,160	6,290
Other comprehensive income/(loss)	0	(230)	140
Total comprehensive income	7,531	1,930	6,430

Statement of Financial Position

As at 31 December 20x5

	Hallmark \$'000	Sturdee \$'000	Arena \$'000
Non-current Assets			
Property, plant and equipment	163,664	81,603	44,380
Investment in Sturdee Pte Ltd (at cost)	59,230	-	-
Investment in Arena Pte Ltd (at cost)	16,440	-	-
	<u>239,334</u>	<u>81,603</u>	<u>44,380</u>
Current Assets			
Inventories	9,288	15,896	10,420
Trade and other receivables	31,306	11,416	8,438
Cash and cash equivalents	39,384	19,279	9,900
	<u>79,978</u>	<u>46,591</u>	<u>28,758</u>
Total Assets	<u>319,312</u>	<u>128,194</u>	<u>73,138</u>
Equity			
Share capital	87,340	49,500	29,700
Revaluation reserves	(2,964)	10,600	5,540
Retained earnings	174,922	56,400	27,100
	<u>259,298</u>	<u>116,500</u>	<u>62,340</u>
Current Liabilities			
Trade and other payables	56,337	11,015	8,688
Provision for tax	3,677	679	2,110
	<u>60,014</u>	<u>11,694</u>	<u>10,798</u>
Total Equity and Liabilities	<u>319,312</u>	<u>128,194</u>	<u>73,138</u>

Statement of Changes in Equity (extract)
For the financial year ended 31 December 20x5

	Hallmark		Sturdee		Arena	
	Revaluation reserves \$'000	Retained earnings \$'000	Revaluation reserves \$'000	Retained earnings \$'000	Revaluation reserves \$'000	Retained earnings \$'000
Balance as at 1 January 20x5	(2,964)	168,138	10,830	54,940	5,400	22,060
Total comprehensive income	-	7,531	(230)	2,160	140	6,290
Dividend paid	-	(747)	-	(700)	-	(1,250)
Balance as at 31 December 20x5	(2,964)	174,922	10,600	56,400	5,540	27,100

Additional information:

1. The Group, consisting of Hallmark and Sturdee, adopts the proportionate share of the fair value of the subsidiaries' identifiable net assets in measuring any non-controlling interest.
2. Ignore all income tax and deferred tax effects, if any, arising from business combinations.
3. Since the respective acquisition dates, there has been no change in the share capital of all the above companies.
4. Other income consists of dividend income and other miscellaneous income.
5. The revaluation reserves relate to the revaluation of property, plant and equipment held by companies in the Group.
6. When Hallmark acquired 60% of Sturdee's ordinary shares on 1 January 20x2, its net assets were represented by ordinary shares of \$49.5 million, revaluation reserves of \$3.25 million and retained earnings of \$32.6 million.
7. With effect from 1 January 20x3, Hallmark had sold goods to Sturdee at cost plus 10%. Based on Hallmark's accounting records, \$5.5 million of these inventories remained unsold as at 31 December 20x4. These inventories were subsequently sold to external customers in 20x5. The sales from Hallmark to Sturdee for the current financial year amounted to \$22 million, and 40% of this inventory remained with Sturdee at the end of the year. All amounts due from Sturdee to Hallmark arising from the intra-group sales of goods were settled as at year-end.
8. On 31 October 20x4, Sturdee sold a property with a carrying amount of \$2.4 million to Hallmark at a loss of \$0.9 million even though no impairment was identified, and the remaining useful life as at that date was 15 years. The property was still held

and used by Hallmark as at 31 December 20x5. Hallmark had fully paid the amount outstanding as at year-end.

9. Since 1 January 20x4, Hallmark has provided accounting and administrative services to Sturdee for a fee of \$120,000 per quarter. The fee was recorded as an operating expense and other income by Sturdee and Hallmark, respectively. It was arranged that the amount for the following year be prepaid to Hallmark as at 31 December, i.e. the annual fee was prepaid on 31 December 20x4 for the financial year ended 31 December 20x5. The amounts were recorded as Trade and other receivables and Trade and other payables and amortised in the books of Hallmark and Sturdee evenly over the financial year.
10. When Hallmark acquired 40% of Arena's ordinary shares on 1 January 20x3, Arena's net assets were represented by ordinary shares of \$29.7 million, revaluation reserves of \$3.8 million and retained earnings of \$14.8 million, while Arena's property with a remaining useful life of 24 years was overvalued by \$7.2 million. The property was still held and used by Arena as at 31 December 20x5.
11. Assume that a shareholding of more than 50% gives rise to control, while a shareholding between 20% and 50% gives rise to significant influence.
12. The Group adopts the straight-line method to amortise its property, plant and equipment and records depreciation as an operating expense.

**e-Exam
Question
Number**

Question 1 required:

Apply SFRS(I) 3 *Business Combinations*, SFRS(I) 10 *Consolidated Financial Statements* and SFRS(I) 1-28 *Investments in Associates and Joint Ventures* when answering **(a)** and **(b)**:

2

- (a)** Prepare the relevant consolidation and equity accounting entries for Hallmark Pte Ltd Group for the financial year ended 31 December 20x5. Show the consolidation and equity accounting entries for the current financial year separately from those relating to the prior years.

Present your answers in the following format:

Transaction date

DR Account Name xxx

CR Account Name xxx

(Narration for Journal Entry)

(28 marks)

3

- (b)** In relation to the Consolidated Statement of Comprehensive Income for the financial year ended 31 December 20x5, prepare the independent proof for the net profit or loss attributable to owners of Hallmark.

(6 marks)

(Total: 34 marks)

Question 2 – Part I and Part II

Part I

After working for more than six years with the company, Diligence was promoted to a regional accountant. Besides financial year-end closing and reporting, Diligence was also busy responding to the sales and purchasing departments on the errors that arose from the implementation of the new accounting system.

The Accounts Officer, Prudence, noted several credit balances in the Accounts Receivable (A/R) listing amounting to \$258,500 and debit balances totalling \$260,000 in the Accounts Payable (A/P) listing. This is the first time she came across such abnormalities in the accounts after more than five years in the company. She suspected these balances arose due to technical faults in the new accounting system and approached Diligence for her advice.

Diligence took a look at the listings, "A quick way to resolve this would be to create a new 'sundry receivable' and transfer these balances to that account. The net amount should be less than \$5,000. Our net assets are about \$1 million, and the A/R and A/P balances are about \$500,000 each."

Prudence clarified that some of the individual amounts were quite significant and more than \$100,000, but Diligence refuted impatiently, "These amounts are more than a year old, the customers or suppliers are unlikely to pursue. Even if they do, we can reinstate these amounts from the sundry receivable account to A/R or A/P after the year-end audit. Unfortunately, I have been busy fixing the errors highlighted by the sales and purchasing departments, so I really don't have time to investigate these balances one by one. Do you have a better and more efficient solution than what I proposed?"

Prudence could sense that Diligence was not ready for further discussion. To a certain extent, Prudence agreed that Diligence's proposed treatment seemed reasonable, as the net amount was insignificant and there was no impact on the net profit.

**e-Exam
Question
Number**

Question 2 Part I required:

Assume that both Diligence and Prudence are members of Institute of Singapore Chartered Accountants. With reference to Ethics Pronouncement (EP) 100, the *ISCA Code of Professional Conduct and Ethics*:

- 4** **(a)** Do you agree with Diligence's proposed solution to handle the abnormalities in the case? Briefly explain your answer.
(6 marks)
- 5** **(b)** Identify ONE fundamental principle which is being threatened from the perspective of the Accounts Officer.
(2 marks)
- 6** **(c)** Describe ONE threat that could compromise, or be perceived to compromise, the Accounts Officer's compliance with the fundamental principle identified in **(b)** above.
(2 marks)
- 7** **(d)** Recommend ONE appropriate action that the Accounts Officer could take to eliminate or reduce the threat to the fundamental principle identified in **(c)** above.
(2 marks)

Part II

On 1 January 20x3, Ever Ready Holdings Pte Ltd (Ever Ready), a company incorporated in Singapore, acquired a 100% interest in and consequently controlled, Duracell Trading (Duracell), which was incorporated in China on 15 July 20x0. The presentation currency of Ever Ready is Singapore Dollars (S\$), whereas the functional and presentation currency of Duracell is the Chinese Yuan Renminbi (CNY). For practical reasons, Ever Ready's policy is to use the average exchange rate for the financial year to translate all profit and loss items. As at 1 January 20x3, the net assets of Duracell were represented by 10,000,000 ordinary shares amounting to CNY 300,000,000 and retained earnings of CNY 183,000,000.

The summarised financial statements of Duracell are as follows:

Statement of Financial Position

As at 31 December 20x6

	CNY'000
Non-current Assets	634,100
Current Assets	355,900
Total Assets	<u>990,000</u>
Equity	
Share capital	306,000
Revaluation reserves	89,000
Retained earnings	357,400
	<u>752,400</u>
Non-current Liabilities	161,100
Current Liabilities	76,500
Total Liabilities	<u>237,600</u>
Total Equity and Liabilities	<u>990,000</u>

Additional information relating to Duracell:

1. The company conducted the following capital transactions on the following dates:

As at	Transaction	Change in number of shares ('000)	Price per share (CNY)
31 August 20x4	1-for-5 share buyback	(2,000)	33
31 May 20x6	3-for-8 rights issue	3,000	24

2. The revaluation reserve arose from the revaluation of properties purchased on 30 June 20x5 at the cost of CNY 350,500,000. The properties were revalued to the following amounts on the following dates:

As at	Fair value (CNY'000)
31 December 20x5	458,400
31 December 20x6	439,500

3. The net profit after tax for the financial year ended 31 December 20x6 was CNY 198,390,000.
4. A dividend of CNY 42,220,000 was paid on 19 October 20x6.
5. The S\$ equivalent of the retained earnings and the currency translation reserve as at 31 December 20x5 were credit balances of S\$25,930,000 and S\$10,153,000 respectively.

6. The exchange rates between the S\$ and the CNY were as follows:

15 July 20x0	S\$1: CNY 5.053
1 January 20x3	S\$1: CNY 4.896
31 August 20x4	S\$1: CNY 5.016
31 December 20x5	S\$1: CNY 5.169
31 May 20x6	S\$1: CNY 5.010
19 October 20x6	S\$1: CNY 4.945

31 December 20x6	S\$1: CNY 5.003
Average for 20x6	S\$1: CNY 4.968

**e-Exam
Question
Number**

Question 2 Part II required:

8

- (a)** Translate the Statement of Financial Position of Duracell Trading for the financial year ended 31 December 20x6 into Singapore Dollars (S\$), in accordance with SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*. Show all workings, including calculations on the translation of the components of equity. **(8 marks)**

9

- (b)** Prove the balance of the translation reserve to the nearest thousand dollar as at 31 December 20x6.

(5 marks)

(Total: 25 marks)

Question 3 – Part I and Part II

Part I

On 1 December 20x8, Transwest Inc. (Transwest) is committed to disposing of one of its business divisions. The carrying amounts of its assets are as follows:

	\$'000
Goodwill	4,500
Owner-occupied property (measured using revaluation model)	14,600
Plant and equipment	7,640
Inventories	6,790
Trade receivables	5,500

On the same day, the fair value of the owner-occupied property was assessed to be \$16 million. Inventories consisted of some obsolete and non-saleable items amounting to \$1.1 million. In addition, 10% of the trade receivables pertained to an amount from a bankrupt customer and was not recoverable.

**e-Exam
Question
Number**

Question 3 Part I required:

Apply SFRS(I) 5 *Non-current Assets Held for Sale and Discontinued Operations* when answering **(a)** and **(b)**:

10

- (a)** Assuming Transwest Inc meets the conditions to be reclassified as a disposal group held for sale, prepare the journal entries on 1 December 20x8, immediately prior to the reclassification.

Present your answers in the following format:

Transaction date

DR Account Name xxx

CR Account Name xxx

(Narration for Journal Entry)

(3 marks)

11

- (b)** As at 31 December 20x8, the fair value of the division was estimated at \$33.3 million, and selling costs was \$1.2 million. There was no further change in the fair values of the division's assets since 1 December 20x8. Compute the adjusted carrying amount of the assets in the disposal group and any allocation of any impairment losses to each of the asset. Show all workings and express your answers to the nearest thousand dollars.

(6 marks)

Part II

Transwest purchased a cash-settled put option at a premium of \$7,000 on 1 October 20x1, which grants Transwest the right to sell 50,000 HSH shares on 31 December 20x1 at \$4.65 each. The following shows the information on the put option:

Date	Price per HSH share (\$)	Intrinsic value of put option per HSH share (\$)	Time value of put option per HSH share (\$)
31 October 20x1	4.37	0.28	0.12
30 November 20x1	4.25	0.40	0.08
31 December 20x1	4.28	0.37	-

**e-Exam
Question
Number**

12

Question 3 Part II required:

- (a)** Prepare the journal entries to record the events and transactions as at 1 October 20x1, 31 October 20x1, 30 November 20x1 and 31 December 20x1 in accordance with SFRS(I) 9 *Financial Instruments*. Show all workings. Ignore tax effects and transaction costs, if any.

Present your answers in the following format:

Transaction date

DR Account Name xxx

CR Account Name xxx

(Narration for Journal Entry)

(11 marks)

(Total: 20 marks)

Question 4 – (a) and (b)

On 1 January 20x1, Lanovo Ltd (Lanovo), with a financial year-end of 31 December, granted a share-based compensation plan to its Managing Director. Under this plan, the Managing Director had the option of receiving either (A) 1 million share options with an exercise price of \$1.20 or (B) a cash payment based on the value of 200,000 shares in Lanovo on the vesting date of 31 December 20x3. These share options will expire on 31 December 20x8.

The fair values and market prices of the share options and Lanovo's shares on the following dates are as follows:

As at	Fair value of share option (\$)	Share price (\$)
1 January 20x1	\$0.55	\$1.31
31 December 20x1	\$0.61	\$1.42
31 December 20x2	\$0.52	\$1.28
31 December 20x3	\$0.65	\$1.45

On 31 December 20x3, the Managing Director selected the cash settlement option as it had a higher value compared to the exercise of the share options.

**e-Exam
Question
Number**

Question 4 required:

Apply SFRS(I) 2 *Share-based Payment* when answering **(a)** and **(b)**:

13

- (a)** Prepare the journal entries for the financial years ended 31 December 20x1 to 20x3, including the settlement of the share-based payment. Show all workings. Ignore the tax effect, if any.

Present your answers in the following format:

Transaction date

DR Account Name xxx

CR Account Name xxx

(Narration for Journal Entry)

(17 marks)

14

- (b)** Assume the Managing Director has chosen to settle the share-based compensation arrangement by issuing equity instruments instead of receiving cash in **(a)**, discuss the accounting treatment for the share-based payment arrangement. Journal entries are not required.

(4 marks)

(Total: 21 marks)

END OF PAPER

Appendix A - Common verbs used by the Examiners

Verb	Description
Compute	Do the number crunching and derive the correct answer.
Describe	Describe requires you to provide the characteristics and features of an item or situation 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.
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 ...".
Prove	Prove requires you to establish that something is true by citing evidence or giving clear logical reasons.
Recommend	Make a statement about the most appropriate course of action.
Translate	For the purposes of this examination, translate refers to the conversion of monetary values from one currency into another currency.

Verb	Description
With reference to	This instruction requires you to relate your answer back to a specific document/s or set of facts. Failure to make specific mention of the document/s or facts in your answer will result in a substantial loss of marks.