

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Advanced Financial Reporting (AFF)

EXAMINATION DATE: 10 December 2019

Section 1

General comments

Candidates have generally performed well in this examination. However, there was a considerable variance in the quality of answers amongst the Candidates. Most Candidates underperformed for Question 2 (allocation of impairment loss to assets in a disposal group held for sale) and Question 4 (financial instruments with effects of changes in foreign exchange rates). Further analysis and common errors made by the Candidates are detailed in Section 2.

Candidates are reminded to put in enough time and effort in their preparation for every examination. They should be well-prepared with the Singapore Financial Reporting Standards (International) (SFRS(I)) and not leave any SFRS(I) uncovered in their revision; to be able to grasp and answer in situations where the application of two or more standards are tested in one single question. The level of proficiency required for Advanced Financial Reporting is substantially higher than what is required to complete the Principle of Financial Reporting module. The level and intensity of examination preparation and practice should commensurate to the higher level of proficiency required for this module. In addition, Candidates should be focused and relevant in their answers to the theoretical components in the papers. Copying and pasting of contents of relevant paragraphs from the standards will receive little or no marks for the question. Marks can only be awarded for the application of the requirements to the facts of the case.

It is noted that most Candidates have done well in their time management and have planned their time accordingly to the requirements of each question. Majority of the Candidates attempted all the questions.

Section 2

Analysis of individual questions

Question 1

This question is on consolidated financial statements involving a Group comprising a subsidiary and an associate. It required Candidates to prepare consolidation and equity accounting journal entries in **part (a)**, as well as to prepare the Consolidated Statement of Financial Position (SFP) in **part (b)**. This question required the application of SFRS(I) 3 *Business Combinations*, and SFRS(I) 1-28 *Investments in Associates and Joint Ventures*.

Part (a) was generally well done; however very few Candidates managed to get all the consolidation and equity accounting entries correct. Most Candidates could

provide the basic investment elimination journal entries, elimination of intragroup dividend and equity accounting journal entries; but Candidates were generally not careful with the consolidation entries in respect of intercompany eliminations. The commonly-made errors are summarised as follows:

- Wrong amount for the provision for litigation loss, thus error made in the determination of goodwill;
- Wrong entries for the reversal of provision for litigation loss;
- Wrong entries for the reversal of unrealised profit in inventory;
- Error in calculating the Non-controlling interest's (NCI's) share of current year profit; and
- Incorrect recording of the unrealised profit in inventories for sale of inventories from associates to parent as a consolidation entry, rather than equity accounting for only the share of the unrealised profit in inventories as a reduction of the investment in the associate.

Overall, many Candidates did well for **part (b)**, even if they could not score well for **part (a)**, indicating that they have an understanding of the overall process in consolidation. The common errors were the calculation of group retained earnings, which many Candidates omitted to include the share of associate's retained earnings.

However, a handful of them completely could not understand consolidation, e.g. they worked out the Share capital in consolidated Statement of Financial Position ("SFP") by adding share capital of both the parent and subsidiary, with some even added up the share capital of the associates. Also, they had included the SFP items of the associate into the consolidated SFP, showing that they do not have a good understanding of the concept on consolidation and equity accounting. They also did not understand the concept of NCI in the consolidated SFP.

There were some Candidates who provided analytical proof for NCI and consolidated retained earnings, instead of the Consolidated SFP as required by the question.

Candidates should work towards high competency in consolidation, which is a question with significant weightage for the paper. More attention should be given to the understanding of the processes in consolidation and equity accounting.

Question 2

Question 2 **part (a)** tested the Candidates on the identification of criteria which allowed an entity's assets to be qualified as a disposal group held for sale in accordance with (SFRS(I)) 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Candidates generally performed well in answering this question as most Candidates correctly identified the criteria set out by SFRS(I) 5 and associated them with the

facts listed in this question. While many Candidates identified between two to three criteria in their answers, only a few of them were able to identify all the criteria set by SFRS(I) 5.

Question 2 **part (b)** involved the computation of adjusted carrying amounts of assets prior to the classification as a disposal group held for sale, thereafter, determined the fair value less costs to sell, and then allocation of impairment loss to each of the asset (as applicable) subsequent to the classification.

Many Candidates erroneously interpreted the recoverable value of machinery while determining the adjusted carrying amounts of assets prior to classification as a disposal group held for sale. The recoverable value of machinery was construed to be \$700,000 when the facts of the case stated that it was \$700,000 lower than its carrying amount.

A few Candidates did not consider the costs to sell while measuring the recoverable amount of the disposal group held for sale at the lower of its carrying amount or fair value less costs to sell. In such cases, the resultant impairment losses that is required to be allocated to each of the asset (as applicable) subsequent to the classification was not accurately determined by the Candidates.

Most Candidates appropriately allocated the impairment loss determined by them first to goodwill that is identified in the question. However, many of them allocated the net impairment losses (after allocation to goodwill) to all the assets instead of allocating to freehold property, machinery and development costs.

Overall, Candidates could have scored better if they read the facts of the case carefully and address the requirements of the question.

Question 3

Question 3 **Part I (a) and (b)** tested Candidates on the identification of fundamental principle that is being threatened under ISCA Code of Professional Conduct and Ethics, and the identification of potential threats to ethical behaviour. Candidates are required to use the information in the case to explain how professional behaviour will be affected by the potential threats.

Most Candidates were able to define and identify the fundamental principles and threats in the scenario given. They could also explain how the identified fundamental principles and threats are affected with relation to the case provided.

Question 3 **Part II** required Candidates to translate the financial statements of a foreign subsidiary in accordance with SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*.

Overall, Candidates did well for this question. A common error in the translation was to use the year-end rate (instead of the rate at payment date) to translate the dividend paid. Most Candidates did not get the right answer for the currency translation reserve calculation. Some Candidates showed the translated total for

equity and liabilities to be the same as total assets, but failed to indicate that a foreign currency translation reserve arises in the translation of foreign financial statements.

Question 4

Question 4 comprised of two parts.

Part I (a) and (b) of this question required Candidates to identify the related parties of the reporting entity, and to disclose the relevant relationship, transactions and balances with related parties as required by SFRS(I) 1-24 *Related Party Disclosures* in the financial statements.

Candidates performed well for the part on related party disclosures. Generally, they could identify most of the related parties. A number of Candidates misunderstood that jointly controlled entity of a party with significant influence on the reporting entity is not a related party to the reporting entity. Similarly, Candidates also misunderstood subsidiary of such a jointly controlled entity is not a related party to the reporting entity.

For items and relationship to be disclosed in the financial statements, Candidates generally were able to list the related party transaction disclosures requirement under SFRS(I) 1-24 *Related Party Disclosures*. However, some Candidates omitted items, e.g. the parent-subsidary relationship, any outstanding balances pertaining to related party, terms and conditions of the loan from related party, and whether it is secured.

Part II (a) and (b) required the Candidates to explain if hedge accounting is required and to prepare accounting entries under SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates* and SFRS(I) 9 *Financial Instruments*.

For **Part II (a)**, almost all the Candidates incorrectly indicated that hedge accounting is required. Hedge accounting is not required in this case, as both the exchange difference on the accounts payable, as well as the forward contract will be recorded in the profit or loss account, hence there is no impact.

For **Part II (b)**, majority of the Candidates did very poorly for this part of the question. Candidates either did not attempt this part of the question or did it incorrectly.

A handful of the Candidates were able to correctly identify the double entries for the transactions, even though only a few of them were able to compute the correct amounts for all the accounting entries.

Most Candidates did not have a good grasp of the concepts of financial instruments, effects of changes in foreign exchange rates and how the instrument works, resulting in illogical accounting entries being provided and computations done. While some Candidates computed the amounts of exchange gain/ loss correctly, the direction of their journal entries were wrong. Some Candidates also misunderstood the effects of changes in foreign exchange rates as hedge accounting.

Candidates need to be clear about the changes in the fair value of the instrument and how this affects the profit and loss statement. Candidates also need to be clear about the movement in the trade payables due to changes in foreign exchange rates and how this affects the statement of profit or loss through foreign exchange gain/loss.

A handful of Candidates did not attempt this part of the question which could be due to poor time management on their part, to complete the paper, or poor preparation for this question. Candidates should plan their time well when attempting each question, and should exhibit more than just basic knowledge of the SFRS(I) when preparing for Advanced Financial Reporting paper.

However, it was noted that almost all Candidates included narration for the journal entries together with the correct transaction dates.