

## SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

**MODULE:** Advanced Financial Reporting (AFF)

**EXAMINATION DATE:** 16 June 2020

### Section 1

#### General comments

Overall, Candidates have performed better in June 2020. However, there was also a considerable variance in the quality of answers across Candidates. Candidates underperformed in Question 2 (intangible assets) and Question 3 Part I (share-based payment). 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 able to grasp and apply two or more standards in their answers to address the situations which are tested in a 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. As such, the level and intensity of examination preparation and practice should commensurate to the higher level of proficiency required for this module.

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 was 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)**, provide independent proof for Retained Earnings in **part (b)** and to explain the requirements for a parent to be exempted from preparing consolidated financial statements in **part (c)**. This question required the application of SFRS(I) 3 *Business Combinations*, SFRS(I) 1-28 *Investments in Associates and Joint Ventures* and SFRS(I) 10 *Consolidated Financial Statements*.

**Part (a)** was generally well done. However, many Candidates misread the question which stated that the carrying amount of the subsidiary's warehouse exceeded its fair value. Consequently, they made the errors in debiting Property, plant and equipment (PPE) instead of crediting PPE in the elimination of investment entry.

This mistake caused them to make errors in subsequent reversal of additional depreciation of overvalued warehouse adjustments.

Also, it is good to see more Candidates being able to deal with Other Comprehensive Income (OCI) for both the subsidiary and associates.

As for equity accounting for the associate, most Candidates have done well (like previously). The common mistake was an unnecessary equity accounting entry on the adjustment of fair value in excess of the carrying amount for the associate's manufacturing plant.

However, there was an increase of Candidates that did poorly in this part (as compared to the previous exam session), some of whom could not prepare proper consolidation journal entries. This showed that they do not have a good understanding of the concept of consolidation and equity accounting.

Most Candidates did well for **part (b)** as they were able to identify the % interest, as well as the relevant ending and beginning retained earnings for the purposes of computing the share of post-acquisition retained earnings for both the subsidiary and associate; though not many Candidates scored full marks due to various errors in the consolidation adjustments.

Candidates generally performed well for **part (c)** in explaining the conditions stated in SFRS(I) 10 *Consolidated Financial Statements*.

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 I** tested the Candidates on the application of the requirements of SFRS(I) 1-38 *Intangible Assets* and required the Candidates to calculate the amortisation expenses for the intangible assets identified in this question and the corresponding carrying value as at the end of a specified reporting period. The amortisation methods identified in the question included straight-line method and double declining method.

Most of the Candidates were able to appropriately apply the straight-line method of amortisation for the intangible asset patent. Their answers demonstrated arithmetical accuracy and portrayed their understanding on the application of straight-line method of amortization.

However, the answers of the vast majority of the Candidates did not demonstrate their understanding of the double declining method of amortisation. Their calculations on the application of double declining method of amortisation of the intangible asset customer list was either incomplete or wholly erroneous.

As a result, it was disappointing to note that the Candidates had underperformed on the question involving application of double declining method of amortisation.

Question 2 **Part II** examined the Candidates on the application of the requirements of SFRS(I) 1-38 on the accounting concepts relating to research and development costs and required the Candidates to identify the accounting treatment for each of the expenditures relating to the prototype of a new product defined in the question.

Most of the Candidates performed well by identifying the appropriate accounting treatment of market survey costs and technical research fees. A few Candidates identified the prototype development fees and design and trial fees which were incurred prior to the completion of the prototype development incorrectly as expenditure to be capitalised instead of being expensed off in the period when it was incurred.

Most of the Candidates appropriately identified the accounting treatment of the purchased equipment for the prototype development and engineer's monthly salaries to perfect the designs and functions of the prototypes in preparation for the product launch.

Candidates could have performed better in this question by exhibiting their understanding of the requirements of SFRS(I) 1-38 which demarcates the accounting treatment of the expenditure associated with the research phase and the development phase.

Many Candidates did not identify the facts of the case which can be associated with the technical feasibility of completing the intangible asset so that it will be available for use or sale, demonstration of the existence of a market and its commercial feasibility, the availability of adequate technical, financial and other resources to complete the development of the prototype and to use or sell the intangible asset as well as its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Candidates should provide relevant answers to address all the criteria of SFRS(I) 1-38 as required by this question and in associating them with facts of the given case. 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 correct application of the requirements to the facts of the case.

### Question 3

Question 3 comprised two parts.

**Part I** required the Candidates to prepare journal entries in accordance with SFRS(I) 2 *Share-based Payment*, involving the calculation of remuneration expense arising from employee share options granted and the relevant journal entries to record expense prior to vesting of the share options, account for the modification as well as exercise of the options.

Almost all the Candidates were able to correctly identify the double entries for the transactions. However, only a few Candidates were able to compute the correct amounts for all the accounting entries.

Most Candidates did not have a good grasp of the concepts of exercise price of the employee share options, vesting period of the options as well as the accounting treatment upon modification of the options. A significant number of Candidates also did not know how to calculate the cumulative remuneration expense. In particular, there were erroneous computation of remuneration expense, either due to using the incorrect number of share option expected to vest or by applying the incorrect fair value of the share option, especially the additional remuneration expense due to the modification to the exercise price of the share option.

**Part II** tested the 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 were required to use the information in the case to explain how professional behaviour will be affected by the potential threats. In addition, the Candidates were also required to identify two relevant stakeholders that will be affected by the un-ethical behaviour of the Accountant and to recommend appropriate action to eliminate or reduce the threat to the fundamental principal.

Most of the 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 were affected with relation to the case provided. They were also able to identify the relevant stakeholders that will be affected as well as to recommend appropriate action to be taken.

#### Question 4

Question 4 comprised two parts.

**Part I** of this question required the Candidates to apply SFRS(I) 15 *Revenue from Contracts with Customers* to compute construction revenue and costs, as well as to account for the transactions using journal entries.

Generally, Candidates did well in calculating the percentage of completion to measure the progress of the construction contract and showed an understanding of the process of determining the revenue to be recognised for a contract whose performance obligation is satisfied over time.

However, some Candidates recognised the cumulative revenue and cost incurred to date up to the second year but not the current year's revenue and cost. Some Candidates identified that there was a provision for foreseeable loss necessary for the contract that needed to be recognised immediately when it was not required.

It was noted that the majority of the Candidates still applied the concept under FRS 11 *Construction Contracts*. As indicated in the comments under the general section,

Candidates are reminded that all future AFF examinations will apply the Singapore Financial Reporting Standards (International) (SFRS(I)) that are issued by the Accounting Standards Council for the relevant year, regardless of the entity type.

Under SFRS(I) 15, when either party to a contract has performed, an entity shall present the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment. The term to use in the statement of financial position should be contract asset instead of construction work in progress and actual cost of the contract incurred for the period will need to be recognised in the profit & loss statement.

Candidates are reminded to provide clear and relevant workings. If Candidates presented incorrect amounts/balances in their journal entries, the absence of such workings results in loss of working marks.

**Part II (a) and (b)** of this question required the Candidates to identify the related parties of the reporting entity and to disclose the relevant relationships, 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 related party disclosures. Generally, they could identify most of the related parties.

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*. Candidates were able to identify most of the items or transactions that were required for disclosure in the financial statements. However, some Candidates omitted items such as the parent-subsidary relationship, provision of guarantee for the loan, share appreciation rights paid, total key management personnel compensation paid by related party and sponsorship of the course programme for close family member of key management personnel. A number of Candidates stated the wrong company for parent-subsidary relationship disclosure requirement.