

SINGAPORE CA QUALIFICATION (FOUNDATION) EXAMINER'S REPORT

MODULE: Advanced Financial Reporting (AFF)

EXAMINATION DATE: 14 December 2020

Section 1

General comments

The Candidates have generally performed well in this examination. Overall, Candidates performed better in the quantitative components in December 2020 than in the qualitative components. There was also a considerable variance in the quality of answers amongst the Candidates. Most of the Candidates underperformed for 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 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. 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.

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 I** and explain the relationships and accounting requirement in associate and joint arrangement in **Part II**. This question required the application of SFRS(I) 3 *Business Combinations* and SFRS(I) 1-28 *Investments in Associates and Joint Ventures*.

Part I was generally well done, most of the Candidates scored well for this part. It is good to see that more Candidates with a good understanding of consolidation and equity accounting.

The Candidates did well for **Part II (a)** as they were able to identify the % interest and the accounting treatment for associates. However, some Candidates misread the question and answered how to account for the disposal of 30% interest in the subsidiary rather than how to account for this investment, which became an associate after disposal. On the other hand, for **Part II (b)**, a lot of Candidates could not understand the concept of joint arrangement and the difference between joint operation and joint arrangement and the difference in their accounting treatments.

Question 2

Question 2 **Part I** required the 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*.

Candidates generally performed well for the translation of foreign currency financial statements. Most of them could apply the correct exchange rates for the assets and liabilities. However, errors were made when translating the equity items, especially the retained earnings and the currency translation reserve.

Common errors made for translation of retained earnings were mainly due to the wrong exchange rates used for the retained earnings as at 1 Jan 20x6 and profit for the financial year ended 31 Dec 20x6. Candidates failed to segregate and translate these 2 figures accurately.

Most Candidates did not get the right answer for the currency translation reserve calculation.

Some Candidates managed to calculate the translation movement for the financial year ended 31 Dec 20x7 but failed to calculate the translation reserve as at 31 Dec 20x6. Consequently, Candidates were unable to provide the proof for the balance of the translation reserve as at 31 Dec 20x7.

Question 2 **Part II** tested the Candidates on the identification of fundamental principles that are threatened under the ISCA Code of Professional Conduct and Ethics, and the identification of potential threats to ethical behaviour.

Overall, Candidates did well for this part. Most of the Candidates were able to identify fundamental principles and to explain the rationale. Also, the Candidates were able to describe the threats in the scenario given and provide a plausible explanation.

However, marks were deducted for Candidates that did not elaborate on the rationale or did not provide an explanation.

Question 3

Question 3 **Part I (a) and (b)** required the 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 related party disclosures. Generally, they could identify most of the related parties. A minority of Candidates incorrectly identify Alliance Inc as a non-related party when Bijan, who is the key management personnel of Bella, has control over the company. Some of the Candidates also incorrectly identify LuluLemon as a related party when LuluLemon only share the same key management personnel as Bella. Having the same key management personnel does not constitute to a related party.

For items and relationship to be disclosed in the financial statements, Candidates generally were able to identify most of the items or transactions that required disclosure under SFRS(I) 1-24 *Related Party Disclosures*. However, some omitted items such as parent-subsidary relationship (company name of parent and subsidiary is required), amount outstanding from the related party, share option paid and provision of management services rendered by the related party. Majority of Candidates failed to identify that equity investment in Feline Design Corp is a disclosure requirement itself.

Part I (c) required the Candidates to explain the importance of related party disclosures in financial statements. Candidates generally did poorly for this part of question. To fare well for this type of question, Candidates are required to explain clearly that the objective of the related party disclosure in an entity's financial statements, is to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances, including commitments, with such parties.

Question 3 **Part II** focused on the application of the concept of cash-generating units (CGUs), impairment testing of CGUs and the allocation of impairment losses to specific CGUs and corporate assets, including those loss amounts which could not be allocated to an individual CGU.

Generally, most Candidates did not perform well for this question. For example, some Candidates were not able to compute the impairment required by comparing the adjusted carrying amount of the individual CGUs to the recoverable amounts, and so drew the incorrect conclusion for the impairment test of the respective CGUs. Furthermore, many Candidates did not know how to allocate the impairment amount between goodwill and the net identifiable assets of the respective CGUs.

Many Candidates did not know how to derive correctly the recoverable amount of the business as Candidates took in restructuring costs when computing the fair value cost to sell of the business. As a result, the impairment loss to be allocated to

the corporate asset was incorrectly derived, thus adversely affecting the computation of the total impairment loss of the entire business.

Question 4

Part (a) required the Candidates to examine the case and identify the type of hedge accounting in accordance with SFRS(I) 9 *Financial instruments*.

Candidates generally performed well in answering this question as most of the Candidates identified cash flow hedge correctly and associated the hedge with the facts listed in this question.

However, a few candidates answered that it was a hedge of the exposure to changes in fair value of a recognized asset instead.

Candidates are required to carefully peruse the facts of the case and answer accordingly by applying the hedging relationships identified by SFRS(I) 9 *Financial instruments*. Marks can only be awarded for the correct application of the requirements to the facts of the case. Replication of relevant paragraphs and definition from the financial reporting standards as a part of the answers without the correct application of the question's requirements will receive little or no marks for the question.

Part (b) involved an application of requirements of SFRS(I) 9 *Financial instruments* and preparation of requisite journal entries to chronologically record the events and transactions based on the facts listed in the given question.

The journal entries were needed to record the cumulative change in fair value of the forward contract from the inception of the hedge. The facts of the question clearly identified that the hedge is effective under SFRS(I) 9 *Financial instruments*. The portion of the gain or loss on the hedging instrument determined to be an effective hedge shall be recognized in other comprehensive income (OCI). A few Candidates recognised the portion of the gain or loss on the hedging instrument in profit or loss instead of recognising it in OCI.

Many Candidates erroneously interpreted the portion of the gain on the hedging instrument given in the question as a loss and vice-versa. The aforementioned erroneous interpretation of gain or loss on hedging led to the incorrect recording of related journal entries.

The facts of the question identified that one of the properties (Building B) proposed to be acquired would be leased out for retail purposes. SFRS(I) 1-40 *Investment Property* stipulates that an Investment Property is a property held to earn rentals or for capital appreciation or both. Accordingly, the property identified in the question was supposed to be accounted for as an investment property instead of being accounted as a fixed asset governed by SFRS(I) 1-16 *Property, Plant and*

Equipment. Majority of the Candidates did not interpret the facts of the question to account for the acquisition of Building B as an investment property correctly

Many Candidates did not reverse the accumulated balances of cash flow hedge reserve to adjust it directly against the initial cost of the fixed asset (SFRS(I) 1-16) and investment property (SFRS(I) 1-40) and instead reclassified the cash flow hedge reserve to profit or loss.

Many Candidates did not attempt this question, which reiterates the requirement for the candidates to manage their time on the day of the examination. Candidates must plan their time accordingly to the requirements of each question so as to avoid a situation of being constrained and leave a question unanswered.