

Singapore CA Qualification (Foundation) Examination

11 December 2018

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 **NINETEEN (19)** 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. This means that you are allowed to only bring the following materials into the examination hall:
 - One A4-sized double-sided cheat sheet.
4. During the examination, you are allowed to use your laptop and any calculators that comply with the SAC's regulations. Please note that mobile phones, tablets, and all other electronic devices **MUST NOT** be used during the examination.
5. This examination paper is the property of the Singapore Accountancy Commission.

MODULE-SPECIFIC INSTRUCTIONS:

6. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.
7. 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 2018.

Question 1 – (a) and (b)

Howell Pte Ltd (Howell) acquired 40,000 ordinary shares of Aero Pte Ltd (Aero) on 1 January 20x5 and 140,000 ordinary shares of Siren Pte Ltd (Siren) on 1 January 20x7. The following are the summarised financial statements of the respective companies:

Statement of Comprehensive Income
For the financial year ended 31 December 20x8

	Howell	Siren	Aero
	\$'000	\$'000	\$'000
Sales	43,400	36,700	27,500
Cost of sales	(26,800)	(22,000)	(16,500)
Gross profit	16,600	14,700	11,000
Other income	4,500	3,200	1,800
Operating expenses	(12,800)	(13,173)	(8,000)
Interest expense	0	(27)	0
Profit before tax	8,300	4,700	4,800
Tax expense	(1,400)	(800)	(1,200)
Profit after tax / Total comprehensive income	6,900	3,900	3,600

Statement of Financial Position
As at 31 December 20x8

	Howell	Siren	Aero
	\$'000	\$'000	\$'000
Non-current assets			
Property, plant, and equipment	9,200	6,300	4,040
Investment in Siren Pte Ltd (at cost)	6,000	0	0
Investment in Aero Pte Ltd (at cost)	2,450	0	0
	<u>17,650</u>	<u>6,300</u>	<u>4,040</u>
Current assets			
Inventories	4,800	1,900	2,500
Accounts and other receivables	4,500	2,600	1,900
Cash and cash equivalents	8,700	4,890	7,080
	<u>18,000</u>	<u>9,390</u>	<u>11,480</u>
Total assets	<u>35,650</u>	<u>15,690</u>	<u>15,520</u>
Equity			
Share capital	6,000	3,500	2,800
Retained earnings	22,100	8,180	6,830
	<u>28,100</u>	<u>11,680</u>	<u>9,630</u>
Current liabilities			
Accounts and other payables	5,950	2,910	4,600
Provision for tax	1,600	1,100	1,290
	<u>7,550</u>	<u>4,010</u>	<u>5,890</u>
Total equity and liabilities	<u>35,650</u>	<u>15,690</u>	<u>15,520</u>

Statement of Changes in Equity (extract)
For the financial year ended 31 December 20x8

	Howell	Siren	Aero
	Retained earnings \$'000	Retained earnings \$'000	Retained earnings \$'000
Balance as at 1 January 20x8	16,700	5,080	3,830
Total comprehensive income	6,900	3,900	3,600
Dividend paid	(1,500)	(800)	(600)
Balance as at 31 December 20x8	22,100	8,180	6,830

Additional information:

1. The Group 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. Share capital

	Howell	Siren	Aero
Number of ordinary shares	300,000	200,000	100,000

There has been no change in the share capital of the companies within the Group since the respective acquisition dates.

4. The other income accounts consist of dividend and interest income, gain (or loss) on sale of property, plant, and equipment, and other miscellaneous income.

5. When Howell acquired Siren on 1 January 20x7:
- Siren's retained earnings amounted to \$2,800,000.
 - The fair value and net book value of Siren's freehold land was \$2,500,000 and \$1,800,000 respectively. Siren sold this piece of land during the financial year ended 31 December 20x8 for \$3,000,000.
6. On 1 July 20x7, Siren sold a piece of equipment costing \$2,000,000 to Howell for \$900,000 cash. As at that date, the accumulated depreciation of this piece of equipment was \$800,000 and the remaining useful life was three years. The machine was still held and used by Howell as at 31 December 20x8.
7. On 1 April 20x8, Howell advanced a short-term loan of \$1,200,000 to Siren at 3% per annum. The entire loan amount and interest owing remained unpaid as at 31 December 20x8. The interest for the relevant period was recorded in the other income account and the interest expense account of Howell and Siren respectively.
8. When Howell purchased its stake in Aero on 1 January 20x5, the value of Aero's retained earnings was \$3,325,000.
9. During the financial year ended 31 December 20x8, Aero sold goods to Howell at a mark-up of 20%. On 31 December 20x8, Howell's inventories included goods invoiced by Aero amounting to \$480,000.
10. Assume that a shareholding of more than 50% gives rise to control, while a shareholding between 20% and 50% gives rise to significant influence.
11. The Group adopts the straight-line method to depreciate its property, plant, and equipment, and records depreciation as an operating expense.

**Exemplify
Question
Number**

Question 1 required:

1

- (a)** Prepare the relevant consolidation and equity accounting entries for Howell Pte Ltd Group for the year ended 31 December 20x8.

Present your journals in the following format:

DR Account Name 100

CR Account Name 100

(Narration or journal title)

(22 marks)

2

- (b)** Prepare the Consolidated Statement of Comprehensive Income for Howell Pte Ltd Group for the year ended 31 December 20x8.

(13 marks)

(Total: 35 marks)

Question 2 – Part I and Part II

Part I

Alpha Pte Ltd (Alpha) is a local company and its primary business activity is the construction of commercial properties.

In February 20x7, Alpha acquired 70% of the shares of Bravo Pte Ltd (Bravo), a manufacturer and wholesaler of construction equipment. In June 20x7, Alpha also invested in 30% of the shares in Charlie Pte Ltd (Charlie) and 15% of the shares in Delta Pte Ltd (Delta), both being civil engineering companies. Bravo owns 55% of the shares in Echo Pte Ltd (Echo), a property design company while Charlie owns 80% of the shares in Foxtrot Pte Ltd (Foxtrot), a project management company.

George is the managing director of Alpha and he also holds 60% of the shares in Delta. During the financial year ended 31 December 20x7 the following events occurred:

- Besides his annual salary, year-end bonus, and employer Central Provident Fund (CPF) contributions, George received employee share options issued by Alpha;
- Alpha purchased construction equipment from Bravo;
- Alpha engaged property design services from Echo; and
- Alpha extended a short-term loan at an annual interest rate of 2.5% per annum to Foxtrot. The loan amount was still outstanding as at 31 December 20x7.

During the year, Alpha did not transact with Charlie or Delta.

The shares held in these companies carry voting rights at the general meetings of the companies, where a shareholding of more than 50% gives rise to control and a shareholding of 20% to 50% gives rise to significant influence.

**Exemplify
Question
Number**

Question 2 Part I required:

3

(a) For the financial year ended 31 December 20x7, explain if the following companies and individuals are related parties of Alpha Pte Ltd.

(i) Bravo Pte Ltd;

(ii) Charlie Pte Ltd;

(iii) Delta Pte Ltd;

(iv) Echo Pte Ltd;

(v) Foxtrot Pte Ltd; and

(vi) George, the managing director of Alpha Pte Ltd.

(6 marks)

4

(b) State the information and relationships that Alpha Pte Ltd needs to disclose under Singapore Financial Reporting Standard (International) (SFRS(I)) 1-24 *Related Party Disclosures* in its financial statements for the year ended 31 December 20x7.

(7 marks)

Part II

On 1 January 20x3, Merlion Pte Ltd (MPL), a company incorporated in Singapore, acquired a 100% interest in and consequently controls Big Apple Inc. (BAI), a company incorporated in the United States of America.

BAI was incorporated on 1 January 20x1 with a paid-up capital of US\$7,500,000. The presentation currencies of MPL and BAI are the Singapore Dollar (S\$) and the United States Dollar (US\$) respectively. For practical reasons, MPL's policy is to use the average exchange rate for the financial year to translate all profit and loss items. The financial statements of BAI are as follows:

Big Apple Inc.
Statement of Financial Position
As at 31 December 20x7

	<i>US\$'000</i>
Non-current assets	35,800
Current assets	21,600
Total assets	57,400
Share capital	10,300
Retained earnings	22,900
Fair value reserve	(2,100)
Total equity	31,100
Non-current liabilities	9,800
Current liabilities	16,500
Total liabilities	26,300
Total equity and liabilities	57,400

Big Apple Inc.
Statement of Comprehensive Income
For the financial year ended 31 December 20x7

	<i>US\$'000</i>
Sales	43,200
Cost of goods sold and operating expenses	(35,000)
Profit before tax	8,200
Tax	(2,600)
Profit after tax	5,600
Other comprehensive income:	
<i>Items that may not be reclassified subsequently to profit or loss:</i>	
Revaluation surplus of equity investments	800
	6,400

Additional information relating to BAI:

- The fair value reserve of BAI arose from revaluation of a long-term equity investment, which was purchased on 1 January 20x6 at a cost of US\$14,500,000. The investment was designated to be classified as fair value through other comprehensive income. The investment was revalued to the following amounts on the following dates:

As at	Fair value (US\$'000)
31 December 20x6	11,600
31 December 20x7	12,400

- On 1 September 20x5, BAI issued additional shares amounting to US\$2,800,000.

3. The S\$ equivalent of the beginning retained earnings as reflected in the Statement of Financial Position as at 31 December 20x6 was S\$25,400,000.
4. The currency translation reserve as at 1 January 20x7 had a credit balance of S\$3,216,000.
5. A dividend of US\$1,240,000 was paid on 15 August 20x7.
6. The exchange rates between the US\$ and the S\$ were as follows:

1 January 20x3	US\$1: S\$1.221
1 September 20x5	US\$1: S\$1.413
31 December 20x5	US\$1: S\$1.416
31 December 20x6	US\$1: S\$1.447
15 August 20x7	US\$1: S\$1.367
31 December 20x7	US\$1: S\$1.337
Average for 20x6	US\$1: S\$1.431
Average for 20x7	US\$1: S\$1.392

**Exemplify
Question
Number**

Question 2 Part II required:

5

- (a)** Translate the financial statements of Big Apple Inc. into Singapore Dollars (S\$) in accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 1-21 *The Effects of Changes in Foreign Exchange Rates*. Show all your workings, including the translation gain or loss for the year. Present your answers to the nearest thousand dollars.

(12 marks)

(Total: 25 marks)

Question 3 – Part I and Part II

Part I

Cemex Ltd (Cemex) is a Singapore incorporated company listed on the Singapore Exchange (SGX), engaged in the business of cement manufacturing.

Based on the company's remuneration framework, the performance bonus payable to its employees is set as a function of the net profit (if any) for the financial year. Due to the slowdown in the construction industry, the Finance Director (FD) of Cemex is concerned that the company would make a net loss for the financial year ended 31 December 20x8, resulting in no performance bonus payout.

The FD reviewed the financials of the company and noted that depreciation expenses took up nearly 40% of the total operating expenses for the financial year. To reduce the depreciation amount, the FD decided to double the useful lives of the relevant fixed assets for the financial year ended 31 December 20x8 and requested the Accountant, who is a member of the Institute of Singapore Chartered Accountants, to pass the relevant adjusting entries to reduce the depreciation expense to reflect the increased useful lives.

Based on the Accountant's best knowledge of the business and condition of the relevant fixed assets, there was no basis to increase the useful lives. When the Accountant enquired about the rationale for increasing the useful lives of the fixed assets, the FD replied,

'Why are you asking so many questions? The useful lives of fixed assets are based on estimates. Estimates can always be changed. Anyway, by adjusting the depreciation expense, we achieve a higher net profit, and we can all look forward to higher performance bonuses. Aren't we doing everyone a favour?'

**Exemplify
Question
Number**

Question 3 Part I required:

With reference to Ethics Pronouncement (EP) 100 the *ISCA Code of Professional Conduct and Ethics*:

- | | |
|----------|---|
| 6 | (a) Identify ONE fundamental principle which is being threatened from the perspective of the Accountant. (2 marks) |
| 7 | (b) Describe ONE threat that could compromise, or be perceived to compromise, the Accountant's compliance with the fundamental principle identified in (a) above. (2 marks) |
| 8 | (c) Recommend TWO appropriate actions the Accountant could take to eliminate or reduce the threat to the fundamental principle identified in (b) above. (4 marks) |

Part II

Leader Pte Ltd (Leader) is in the oil and gas industry. It has three different business divisions: A, B, and C, which constitute separate cash generating units (CGUs). Due to the recent slowdown in the industry, Leader would like to conduct an impairment test for each of its CGUs.

All the marketing and administrative processes for the three CGUs are supported by the central office, and it is not possible to allocate the net identifiable assets of the central office on a reasonable and consistent basis to any of the CGUs.

The following information for the three CGUs as at 30 September 20x8 (Leader's financial year end) is relevant:

As at 30 September 20x8	CGU A	CGU B	CGU C
Product types manufactured by the respective CGU	Bottled gas	Petrol	Jet fuel
Net identifiable assets (\$'m) (i.e. Property, plant, and equipment)	550	760	480
Goodwill (\$'m)	70	80	50
Recoverable amount (\$'m)	450	800	600

As at 30 September 20x8, the net identifiable assets of the central office amounted to \$210m and the recoverable amount of the whole business (including the net identifiable assets of the central office) was \$1,900m.

**Exemplify
Question
Number**

Question 3 Part II required:

9

- (a)** Describe TWO possible circumstances that could make Leader Pte Ltd conclude that its three business divisions qualify as separate Cash Generating Units (CGUs) under Singapore Financial Reporting Standard (International) (SFRS(I)) 1-36 *Impairment of Assets*. **(4 marks)**

10

- (b)** Perform an impairment test for Leader Pte Ltd, stating the allocation of any impairment loss and the total impairment loss to be recognised for the financial year ended 30 September 20x8. Show all workings. **(10 marks)**

(Total: 22 marks)

Question 4 – (a) and (b)

On 1 January 20x9, Winn Trading Pte Ltd (Winn) decided to sell 50,000 pounds of cotton, which had originally cost \$4,200,000. The inventory was stated at the lower of cost and net realisable value. To protect itself from adverse price fluctuations, Winn entered into a futures contract on 1 January 20x9 to sell an equal amount of cotton at \$85 per pound on 31 March 20x9.

Winn applied cash flow hedge accounting and had designated the price of the futures contract to hedge the cash flow risk of the highly probable sale of cotton based on the future price. On 31 March 20x9, the futures contract was duly settled. On the same day, 50,000 pounds of cotton was sold for cash at the spot price on that date.

The following table shows the price movements of cotton per pound:

Date	Spot price per pound (\$)	Future price per pound (\$) for settlement on 31 March 20x9
1 January 20x9	84.80	85.00
31 January 20x9	86.10	86.20
28 February 20x9	87.10	87.30
31 March 20x9	86.90	86.90

Assume that Winn adopts a perpetual inventory system and Singapore Financial Reporting Standard (International) (SFRS(I)) 9 *Financial Instruments* for financial reporting purposes, and that the hedge is effective under SFRS(I) 9.

Ignore (i) the margin deposit and transaction costs on the futures contract; (ii) time value of money, as it is not expected to be significant; and (iii) tax effects, if any, arising from the above transactions.

**Exemplify
Question
Number**

Question 4 required:

11

- (a)** Prepare the journal entries for Winn Trading Pte Ltd to record the events and transactions as at 31 January, 28 February, and 31 March 20x9 in accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 9 *Financial Instruments*. Indicate clearly in your answer if each event and/or transaction results in a 'profit or loss item' or an 'other comprehensive income item'.

Present your journals in the following format:

Transaction date

DR Account Name 100

CR Account Name 100

(Narration or journal title)

(16 marks)

12

- (b)** Explain the purpose of hedging and hedge accounting if elected.

(2 marks)

(Total: 18 marks)

END OF PAPER

Appendix A - Common verbs used by the Examiners

Verb	Description
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.
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.
Justify	Whenever you see the word justify you <u>must</u> provide reasons for your answer, in other words, provide support for your argument or conclusion. If you fail to justify your answer, you will lose valuable marks.
Perform	Carry out a specific function or test in a prescribed manner.
Prepare / Present	Prepare (or present) requires you to produce your answer using a specific format.
Recommend	Make a statement about the most appropriate course of action. If there is more than one possible course of action, state which action you would choose and why (justify your choice). Your professional judgment and your ability to interpret the wider situation are critical to scoring well in these types of questions. Don't forget to think about the future and the past, not just the present when making a recommendation .
State	State is similar to list , but the items require your professional judgement. For instance, " State any restrictions that apply". One of the easiest ways to make sure that you state comprehensively is to think, " list and justify ". You will note that state appears in many of the verb descriptions given.
Translate	For the purposes of this examination, translate refers to the conversion of monetary values from one currency into another currency.
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.