

**Singapore CA Qualification (Foundation) Examination****10 December 2019****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 (20)** 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 watches, 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 2019.

**Question 1 – (a) and (b)**

Heinrich Pte Ltd (Heinrich) acquired 70% of Schwann Pte Ltd (Schwann) on 1 January 20x1 and 30% of Aristotle Pte Ltd (Aristotle) on 1 January 20x2. The following are the summarised financial statements of the respective companies:

**Statement of Comprehensive Income**  
**For the financial year ended 31 December 20x4**

	Heinrich	Schwann	Aristotle
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Sales	78,210	52,610	32,290
Cost of sales	(42,920)	(29,800)	(20,080)
<b>Gross profit</b>	<b>35,290</b>	<b>22,810</b>	<b>12,210</b>
Other income	5,330	3,250	1,870
Operating expenses	(25,720)	(16,350)	(8,470)
<b>Profit before tax</b>	<b>14,900</b>	<b>9,710</b>	<b>5,610</b>
Tax expense	(2,980)	(1,940)	(1,120)
<b>Profit after tax / Total comprehensive income</b>	<b>11,920</b>	<b>7,770</b>	<b>4,490</b>

## Statement of Financial Position

As at 31 December 20x4

	Heinrich	Schwann	Aristotle
	\$'000	\$'000	\$'000
<b>Non-current assets</b>			
Property, plant and equipment	43,298	33,510	16,455
Investment in Schwann Pte Ltd (at cost)	24,550	0	0
Investment in Aristotle Pte Ltd (at cost)	6,120	0	0
	73,968	33,510	16,455
<b>Current Assets</b>			
Inventories	11,280	8,390	7,270
Trade and other receivables	5,725	5,420	2,540
Cash and cash equivalents	6,520	4,410	3,875
	23,525	18,220	13,685
<b>Total Assets</b>	97,493	51,730	30,140
<b>Equity</b>			
Share capital	43,600	25,400	18,500
Retained earnings	46,563	20,870	7,360
	90,163	46,270	25,860
<b>Current liabilities</b>			
Trade and other payables	4,410	3,560	3,180
Provision for current tax	2,920	1,900	1,100
	7,330	5,460	4,280
<b>Total Equity and Liabilities</b>	97,493	51,730	30,140

**Statement of Changes in Equity (extract)**  
**For the financial year ended 31 December 20x4**

	<b>Heinrich</b>	<b>Schwann</b>	<b>Aristotle</b>
	<b>Retained earnings</b>	<b>Retained earnings</b>	<b>Retained earnings</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Balance as at 1 January 20x4	38,183	15,480	4,300
Total comprehensive income	11,920	7,770	4,490
Dividend paid	(3,540)	(2,380)	(1,430)
Balance as at 31 December 20x4	<b>46,563</b>	<b>20,870</b>	<b>7,360</b>

**Additional information:**

1. The Group, consisting of Heinrich and Schwann, 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. There has been no change in the share capital of all the above companies since the respective acquisition dates.
4. Other income consists of dividend, accounting and administrative fee income and other miscellaneous income.
5. When Heinrich acquired Schwann on 1 January 20x1:
  - The amount of Schwann's retained earnings was \$8,260,000.

- The fair value of Schwann's freehold land exceeded its cost by \$1,530,000.
  - Schwann had a pending lawsuit in which the lawyer advised there was a 40% probability that the company would lose the case and would have to pay \$2,750,000. The contingent liability was settled out-of-court by Schwann paying \$2,000,000 on 30 June 20x2.
6. Since 1 January 20x3, Schwann had sold goods to Heinrich at cost plus 20%. As at 31 December 20x3, \$2,400,000 of these inventories remained in the store of Heinrich. Heinrich subsequently sold these inventories to external customers in January 20x4. The sales from Schwann to Heinrich amounted to \$3,700,000 for the financial year ended 31 December 20x4, and all these inventories were subsequently sold to external customers as at 31 December 20x4. The amount owing from Heinrich to Schwann for the intercompany sales had been fully settled as at 31 December 20x4.
  7. Since 1 April 20x4, Heinrich has provided accounting and administrative services to Schwann for a fee of \$25,000 per month. This fee was recorded by Schwann as an operating expense. The fee charged by Heinrich to Schwann for the last quarter of financial year remained outstanding as at 31 December 20x4.
  8. When Heinrich purchased its stake in Aristotle on 1 January 20x2, the value of Aristotle's retained earnings was at \$1,900,000.
  9. During the financial year ended 31 December 20x4, Aristotle sold goods to Heinrich for \$2,500,000. The gross profit arising from the sale is \$800,000. On 31 December 20x4, Heinrich's inventories included goods invoiced by Aristotle amounting to \$1,000,000. As at 31 December 20x4, the amount owing by Heinrich to Aristotle amounted to \$750,000 and was recorded by the respective companies in their accounts.
  10. Assume that a shareholding of more than 50% gives rise to control, while a shareholding between 20% and 50%, inclusive, gives rise to significant influence.

**Exemplify  
Question  
Number**

**Question 1 required:**

Apply Singapore Financial Reporting Standard (International) (SFRS(I)) 3 *Business Combinations*, SFRS(I) 10 *Consolidated Financial Statements* and SFRS(I) 1-28 *Investments in Associates and Joint Ventures* when answering the following:

**1**

- (a)** Prepare the relevant consolidation and equity accounting entries for Heinrich Pte Ltd Group for the financial year ended 31 December 20x4. Show supporting workings where necessary. Marks will be awarded for appropriate workings.

*Present your answers in the following format:*

Transaction date

DR Account Name xxx

CR Account Name xxx

(Narration for Journal Entry)

**(19 marks)**

**2**

- (b)** Prepare the Consolidated Statement of Financial Position for Heinrich Pte Ltd Group for the financial year ended 31 December 20x4. Show supporting workings where necessary. Marks will be awarded for appropriate workings.

**(18 marks)**

**(Total: 37 marks)**

## Question 2 – (a) and (b)

BTS Pte Ltd (BTS) plans to restructure its operations by selling some of its unprofitable business units and channel their funds to expand their operations into more profitable segments. As a result, its Board of Directors passed a special resolution to dispose the group of its assets - the hard-disk manufacturing unit. No major overhaul of its assets was required, and the unit was available for immediate sale. The managing director had been actively marketing the unit with an asking price of \$17 million.

As at 31 December 20x7, the Managing Director was in active talks with two interested buyers, although no deal had been struck yet. Given the progress of the negotiation with the buyers, the Board of Directors was confident that the unit would be successfully sold within a year.

The accountant of BTS concluded that assets of the unit qualified as a disposal group held for sale, and are measured as follows as at financial year ended 31 December 20x7:

	<b>Carrying amount \$'000</b>
Goodwill allocated	2,430
Freehold property (classified as property, plant and equipment measured using the revaluation method)	5,650
Machinery (classified as property, plant and equipment measured using the cost method)	3,300
Investment property (measured using the fair value method)	7,310
Development costs	1,820
Inventories	2,400

It was also determined that the recoverable amount of the machinery was \$700,000 lower than its carrying amount, while the recoverable amount of the development costs and the net realisable value of inventories were half of their carrying amounts.

An independent valuer had assessed the fair value of the disposal group to be \$17 million, while the costs to sell were reasonably estimated at \$800,000.



**Exemplify  
Question  
Number**

**Question 2 required:**

**3**

- (a)** Based on the given case, identify the criteria which allows the assets of the hard-disk manufacturing unit to be qualified as a disposal group held for sale in accordance with Singapore Financial Reporting Standard (International) (SFRS(I)) 5 *Non-current Assets Held for Sale and Discontinued Operations*.

**(7 marks)**

**4**

- (b)** Compute the adjusted carrying amount of the assets of the hard-disk manufacturing operations on 31 December 20x7 prior to the classification as a disposal group held for sale, and any allocation of impairment loss to each of the asset (if any) subsequent to the classification. Show all workings and express your answers to the nearest thousand dollars.

**(11 marks)**

**(Total: 18 marks)**

### **Question 3 – Part I and Part II**

#### **Part I**

Mr Thomas Poh, a member of the Institute of Singapore Chartered Accountants, joined Smap Pte Ltd in 20x1 and is currently the Assistant Finance Manager of the company. He reviewed the accounts for the financial year ended 31 December 20x8, and discovered a significant increase in the staff costs as compared to the previous financial year.

Upon further investigation, he discovered that it was an omission of bonus provision for the sales department for the financial year ended 31 December 20x7. He was concerned that the material error from prior period would require retrospective adjustment and restatement of the prior period financial statements, as this could potentially affect his appraisal and even variable bonus for the year. Nevertheless, he consulted his superior, Mr Stephen Phang, the Finance Manager.

After some consideration, Mr Stephen proposed, “Restating the financial statements and disclosing that there is an error from prior period means we acknowledge that there was an error in last year’s accounts and this will result a negative impression of our Finance team. Why don’t we reclassify the omitted amount into a few expense accounts, so that it would not be easily noticeable and we do not have to restate the financial statements? Otherwise, I cannot imagine the grading we would get for our appraisal this year!”

**Exemplify  
Question  
Number**

**Question 3 Part I required:**

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

- 5**                    **(a)** Identify TWO fundamental principles which are being threatened from the perspective of the Assistant Finance Manager.  
**(4 marks)**
- 6**                    **(b)** Describe TWO threats that could compromise, or be perceived to compromise, the Assistant Finance Manager's compliance with the fundamental principle identified in part **(a)** above.  
**(4 marks)**

## Part II

On 1 January 20x6, City Inn Pte Ltd (City Inn), a company incorporated in Singapore, acquired a 100% interest in and consequently controls Kampung Resort Sdn. Bhd. (Kampung), a company incorporated in Malaysia on 1 April 20x2.

The presentation currency of City Inn is in Singapore Dollars (S\$), whereas the functional and presentation currency of Kampung is in Malaysian Ringgit (MYR). For practical reasons, it is City Inn's policy to use the average exchange rate for the financial year to translate all profit and loss items.

As at 1 January 20x6, the net assets of Kampung were represented by share capital of MYR 54,300,000 and retained profits of MYR 29,300,000.

The summarised financial statements of Kampung are as follows:

### Statement of Financial Position As at 31 December 20x8

	MYR'000
Non-current assets	103,550
Current assets	89,210
<b>Total assets</b>	<b>192,760</b>
Share capital	54,300
Treasury shares	(7,420)
Retained earnings	54,360
<b>Total equity</b>	<b>101,240</b>

Non-current liabilities	64,290
Current liabilities	27,230
<b>Total liabilities</b>	<b>91,520</b>
<b>Total equity and liabilities</b>	<b>192,760</b>

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

	<b>MYR'000</b>
Sales	87,650
Cost and operating expenses	(54,860)
Profit before tax	32,790
Tax	(7,520)
<b>Profit after tax / Total comprehensive income</b>	<b>25,270</b>

***Additional information pertaining to Kampung:***

- The company conducted a share buy-back on the following dates:

<b>As at</b>	<b>No. of shares ('000)</b>	<b>Price per share (MYR)</b>
1 May 20x7	3,400	1.30
31 August 20x8	2,400	1.25

The repurchased shares were kept as treasury shares.

2. The S\$ equivalent of the retained earnings as at 31 December 20x7 was a credit balance of S\$10,809,000.
3. The currency translation reserve as at 31 December 20x7 had a debit balance of S\$148,000.
4. A dividend of MYR 3,500,000 was paid on 28 May 20x8.
5. The exchange rates between the MYR and the S\$ were as follows:

1 January 20x6	S\$1: MYR 3.026
1 May 20x7	S\$1: MYR 3.103
31 December 20x7	S\$1: MYR 3.034
28 May 20x8	S\$1: MYR 2.959
31 August 20x8	S\$1: MYR 3.009
31 December 20x8	S\$1: MYR 3.036
Average for 20x8	S\$1: MYR 2.958

**Exemplify  
Question  
Number**

**Question 3 Part II required:**

**7**

- (a)** Translate the financial statements of Kampung Resort Sdn. Bhd. for the financial year ended 31 December 20x8 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 workings and express your answers to the nearest thousand dollars, including the translation gain or loss for the financial year.

**(13 marks)**

**(Total: 21 marks)**

## Question 4 – Part I and Part II

### Part I

For the financial year ended 31 December 20x8, the issued shares of Cameron Pte Ltd (Cameron) were held by the following parties:

Achill Pte Ltd (Achill)	220,000
Deans (An individual investor)	230,000
Farro Ltd	550,000

In January 20x8, Achill entered into a joint venture with another company to set up a distribution chain, Barra Pte Ltd (Barra). Barra held 60% of the shareholding in Easter Pte Ltd (Easter).

The shareholdings in the respective 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%, inclusive, gives rise to significant influence.

During the financial year ended 31 December 20x9, the following events occurred:

- Besides annual salaries, year-end bonuses and employer Central Provident Fund (CPF) contributions, the key management personnel of Cameron received employee share appreciation rights paid on behalf by Farro Ltd.
- Achill sold goods to Cameron amounting to \$1 million.
- Deans advanced a 3-year loan of \$5 million to Cameron to cover its working capital at an annual interest rate of 3% per annum. The loan amount was still outstanding as at 31 December 20x9.
- During the year, Achill did not transact with Barra and Easter.



**Exemplify  
Question  
Number**

**Question 4 Part I required:**

**8**

**(a)** For the financial year ended 31 December 20x9, explain if the following companies and individuals are related parties of Cameron Pte Ltd:

**(i)** Achill Pte Ltd

**(ii)** Barra Pte Ltd

**(iii)** Deans, the shareholder of Cameron Pte Ltd

**(iv)** Easter Pte Ltd

**(v)** Farro Ltd

**(6 marks)**

**9**

**(b)** State the information and relationships that Cameron 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 20x9.

**(5 marks)**

## Part II

On 1 November 20x6, Confinity Pte Ltd (Confinity), a Singapore-incorporated company, purchased inventories for US\$750,000 on 90 days credit terms. On the same day, it entered into a forward exchange contract to purchase US\$750,000 in 90 days at the forward rate of US\$1 = S\$1.342 to hedge the foreign currency exposure. The accounting system of Confinity performs revaluation of foreign currency balances using the month-end exchange rate.

The exchange rate between USD and SGD on the following dates is as follows:

	<b>Spot exchange rate</b> <b>(US\$ : S\$)</b>	<b>Forward exchange rate for settlement on 31 January 20x7</b> <b>(US\$ : S\$)</b>
1 November 20x6	1.386	1.342
30 November 20x6	1.431	1.371
31 December 20x6	1.392	1.366
31 January 20x7	1.350	1.350

The full amount of US\$750,000 was settled in full on 31 January 20x7.

**Exemplify  
Question  
Number**

**Question 4 Part II required:**

**10**

- (a)** Briefly explain if Confinity should apply hedge accounting.  
**(2 marks)**

**11**

- (b)** Apply Singapore Financial Reporting Standard (International) (SFRS(I)) 1-21 *The Effects of Changes in Foreign Exchange Rates* and SFRS(I) 9 *Financial Instruments*. Prepare the journal entries to record the events and transactions as at 1 November 20x6, 30 November 20x6, 31 December 20x6 and 31 January 20x7. Show all workings. Ignore tax effects, time value of money and transaction costs, if any. Assume Confinity meets all qualifying criteria for hedge accounting if it is required to be applied.

*Present your answers in the following format:*

Transaction date

DR Account Name                      xxx

CR Account Name                      xxx

(Narration for Journal Entry)

**(11 marks)**

**(Total: 24 marks)**

**END OF PAPER**

## Appendix A - Common verbs used by the Examiners

Verb	Description
<b>Apply</b>	This instruction requires you to relate your answer back to a specific document/s or set of facts. Alternatively, you may be required to use a specific formulae, model, or process. <b>Apply</b> and <b>With reference to</b> are similar.
<b>Calculate / Compute</b>	Do the number crunching and derive the correct answer. Make sure that you write down your workings and crosscheck your numbers.
<b>Describe</b>	<b>Describe</b> requires you to provide the characteristics and features of an item or situation without going into step-by-step <b>detail</b> of how to perform that procedure.
<b>Explain</b>	<b>Explain</b> 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.
<b>Identify</b>	<b>Identify</b> is similar to list, but requires you to also provide an <b>explanation</b> as to why the item/s that you have <b>identified</b> is/are relevant to the facts given in the question.
<b>In accordance with</b>	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.
<b>Prepare / Present</b>	<b>Prepare</b> (or <b>present</b> ) requires you to produce your answer using a specific format. For instance, " <b>Present</b> an extract of the notes to the accounts for ..." or " <b>Prepare</b> all the relevant journal entries for ...".
<b>State</b>	<b>State</b> is similar to <b>list</b> , but the items require your professional judgement. For instance, " <b>State</b> any restrictions that apply". One of the easiest ways to make sure that you <b>state</b> comprehensively is to think, " <b>list and justify</b> ". You will note that <b>state</b> appears in many of the verb descriptions given.
<b>Translate</b>	For the purposes of this examination, <b>translate</b> refers to the conversion of monetary values from one currency into another currency.
<b>With reference to</b>	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.