

Singapore CA Qualification (Foundation) Examination**14 December 2020****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-THREE (23)** 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. You are allowed to have only the following materials with you at your exam location:
 - One A4-sized double-sided cheat sheet
 - One A4-sized double-sided blank scratch paper
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 and **MUST NOT** be within reach or sight or hearing from where you are seated to write the exam. Use of these devices, or, the sight or hearing of these devices, will be flagged as integrity breaches and investigated, unless it is for the purpose as stated under paragraph 6 below.
5. During the examination, videos of you and your computer screen will be recorded for the purpose of ensuring examination integrity and you have consented to these recordings.
6. Should you encounter any issues during the examination, please contact any of the hotlines below for assistance. The hotlines will be operational from one hour before the scheduled start time of the examination to 45 minutes after the scheduled end time of the examination.

Hotline numbers
6734 9868
6325 0594
8125 1053

7. This examination paper and all video recordings of this exam are the property of the Singapore Accountancy Commission.

MODULE-SPECIFIC INSTRUCTIONS:

8. Assume that all dollar amounts are in Singapore dollar (S\$) unless otherwise stated.
9. 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 2020.

**Exemplify
Question
Number**

1

Compulsory pre-exam steps to be recorded in video

Before you begin this exam, you are to perform a 360 degrees environment scan (via webcam), including a view of your table top, so that the location where you are taking the exam is being recorded in the video.

Next, show each side of your A4-sized double-sided cheat sheet to the webcam so that your cheat sheet is being recorded in the video.

Lastly, if you are using a calculator and a blank sheet of A4-sized scratch paper, show the calculator and both sides of the blank scratch paper to the webcam so that these items will be recorded in the video.

Should you encounter any issues during the examination, please contact any of the hotlines below for assistance.

1. 6734 9868
2. 6325 0594
3. 8125 1053

Question 1 – Part I & Part II

Hillion Pte Ltd (Hillion) acquired 6 million out of 10 million issued shares of Sofitel Pte Ltd (Sofitel) on 1 January 20x1 and 2.7 million out of 9 million issued shares of Accor Pte Ltd (Accor) on 1 January 20x3. The following are the summarised financial statements of the respective companies:

Statement of Comprehensive Income

For the financial year ended 31 December 20x6

	Hillion	Sofitel	Accor
	\$'m	\$'m	\$'m
Sales	89,789	62,852	35,487
Cost of sales	(32,251)	(27,063)	(13,249)
Gross profit	57,538	35,789	22,238
Other income	1,209	867	306
Operating expenses	(52,705)	(31,893)	(19,136)
Interest expenses	(329)	(230)	-
Profit before tax	5,713	4,533	3,408
Tax expense	(1,074)	(853)	(838)
Profit after tax	4,639	3,680	2,570
Other comprehensive income	150	-	210
Total comprehensive income	4,789	3,680	2,780

Statement of Financial Position

As at 31 December 20x6

	Hillion \$'m	Sofitel \$'m	Accor \$'m
Non-current Assets			
Property, plant and equipment	18,463	17,826	8,913
Investment in Sofitel Pte Ltd (at cost)	9,640	-	-
Investment in Accor Pte Ltd (at cost)	3,540	-	-
	31,643	17,826	8,913
Current Assets			
Inventories	1,097	3,210	1,428
Trade and other receivables	2,730	4,395	2,684
Cash and cash equivalents	15,447	10,211	17,790
	19,274	17,816	21,902
Total Assets	50,917	35,642	30,815
Equity			
Share capital	13,964	8,455	5,400
Revaluation reserves	195	-	400
Retained earnings	14,298	14,765	14,510
	28,457	23,220	20,310
Current Liabilities			
Trade and other payables	21,139	11,797	9,794
Provision for tax	1,321	625	711
	22,460	12,422	10,505
Total Equity and Liabilities	50,917	35,642	30,815

Statement of Changes in Equity (extract)
For the financial year ended 31 December 20x6

	Hillion		Sofitel		Accor	
	Revaluation reserves \$'m	Retained earnings \$'m	Revaluation reserves \$'m	Retained earnings \$'m	Revaluation reserves \$'m	Retained earnings \$'m
Balance as at 1 January 20x6	45	10,358	-	11,735	190	12,370
Total comprehen sive income	150	4,639	-	3,680	210	2,570
Dividend paid	-	(699)	-	(650)	-	(430)
Balance as at 31 December 20x6	195	14,298	-	14,765	400	14,510

Additional information:

1. The Group, consisting of Hillion and Sofitel, 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, gain on disposal of property, plant and equipment and other miscellaneous income.
5. The revaluation reserves relate to the revaluation of property, plant and equipment held by companies in the Group.
6. When Hillion acquired Sofitel on 1 January 20x1:
 - Sofitel's net assets were represented by share capital of \$8,455m, revaluation reserves of \$640m and retained earnings of \$5,110m.
 - The fair value of Sofitel's freehold land exceeded its carrying amount by \$780m. The freehold land was sold to an external party by Sofitel in June 20x3.
 - The fair value of Sofitel's warehouse exceeded its carrying amount by \$300m. The remaining useful life of the warehouse on this date was ten years. The warehouse was still held and in use by Sofitel as at 31 December 20x6.
7. On 1 April 20x6, Hillion sold two units of machine, with a carrying amount of \$500m each to Sofitel for a total of \$1,360m, and the remaining useful life for each of these machines as at that date was 3 years. As at 31 December 20x6, the amount due from Sofitel to Hillion arising from this sale remained unsettled, and the machines were still held and used by Sofitel.
8. Since 1 January 20x5, Sofitel had sold goods to Hillion. As at 31 December 20x5, some of these goods still remained unsold, and the unrealised profit arising from these goods amounted to \$350m. Hillion subsequently sold these goods to external customers in 20x6. The sales from Sofitel to Hillion for the financial year ended 31 December 20x6 and the related profit arising amounted to \$3,600m and \$600m respectively. As at 31 December 20x6, 40% of these inventories remained in the store of Sofitel. As at 31 December 20x6, the unsettled balance due from Hillion to Sofitel arising from the sale of goods amounted to \$500m.

9. It was agreed that the intercompany balances would be offset as at 31 December 20x6, such that Sofitel recorded the net amount due from Hillion, while Hillion recorded the same amount due to Sofitel in their respective accounts.
10. When Hillion purchased its stake in Accor on 1 January 20x5, Accor's net assets were represented by share capital of \$5,400m and retained earnings at \$6,400m only.
11. During the financial year ended 31 December 20x6, Accor sold a piece of freehold land to Hillion for a gain of \$250m. The land was still held by Hillion as at 31 December 20x6.
12. Assume that a shareholding of more than 50% gives rise to control, while a shareholding between 20% and 50% gives rise to significant influence.
13. 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 Part I required:

Apply SFRS(I) 3 *Business Combinations*, SFRS(I) 10 *Consolidated Financial Statements* and SFRS(I) 1-28 *Investments in Associates and Joint Ventures* when answering **(a)**:

2

- (a)** Prepare the relevant consolidation and equity accounting entries for Hillion Pte Ltd Group for the financial year ended 31 December 20x6. Show the consolidation and equity accounting entries for the current financial year separately from those relating to the prior years.

Present your answers in the following format:

Transaction date

DR Account Name xxx

CR Account Name xxx

(Narration for Journal Entry)

Note: You may want to use the spreadsheet tool in Exemplify to prepare your answer. You are required to copy your answer in the spreadsheet tool to the Exemplify answer window.

(29 marks)

**Exemplify
Question
Number**

Question 1 Part II required:

Due to a change in business strategy, Hillion disposed 3 million of shares in Sofitel in June 20x7. Separately, Hillion set up a company, Jetwing Pte Ltd (Jetwing) with its business partner, Pacific Pte Ltd (Pacific) under a contractual arrangement, each having 50% of the shareholding in Jetwing. Both Hillion and Pacific have control of Jetwing collectively and decisions about the relevant activities require the unanimous consent of both Hillion and Pacific. In addition, the arrangement also provided both Hillion and Pacific rights to the net assets of Jetwing based on their respective shareholding.

3

- (a)** Briefly explain how the relationship between Hillion and Sofitel would have changed after the disposal of shareholdings and how Hillion should account for its investment in Sofitel for the financial year ended 31 December 20x7.

(4 marks)

4

- (b)** Explain if the co-investment with Pacific in Jetwing would result in a joint arrangement and how Hillion should account for its investment in Jetwing.

(4 marks)

(Total: 37 marks)

Question 2 – Part I & Part II

Part I

On 1 January 20x6, Prime Pte Ltd (Prime), a company incorporated in Singapore, acquired a 100% interest in, and consequently controls, Canopy Trading (Canopy), which was incorporated in Bangkok on 1 July 20x4.

The presentation currency of Prime is Singapore Dollars (S\$), whereas the functional and presentation currency of Canopy is Thai Baht (THB). For practical reasons, it is Prime'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 Canopy were represented by share capital of THB46,340,000, fair value reserves of THB5,857,000 and retained earnings of THB55,280,000.

The summarised financial statements of Canopy are as follows:

Statement of Financial Position

As at 31 December 20x7

	<i>THB</i>
Non-current assets	121,494,380
Current assets	42,430,100
Total assets	163,924,480
Share capital	55,650,000
Fair value reserves	(13,480,500)
Retained earnings	74,329,100
Total equity	116,498,600

Non-current liabilities	24,922,000
Current liabilities	22,503,880
Total liabilities	47,425,880
Total equity and liabilities	163,924,480

Additional information pertaining to Canopy:

1. The company conducted share issues on the following dates:

As at	Share Capital (THB)
1 July 20x6	4,580,000
31 October 20x7	4,730,000

2. The profits for the financial years ended 31 December 20x6 and 20x7 were THB6,960,300 and THB15,588,800 respectively.
3. While no dividend was paid by Canopy during the financial year ended 31 December 20x6, a dividend of THB3,500,000 was paid on 28 April 20x7.
4. The changes in fair value of investments were recorded in revaluation reserves on the following dates:

As at	Amount (THB)
31 December 20x6	(13,560,000)
31 December 20x7	(5,777,500)

5. The exchange rate between the THB and the S\$ on various dates were as follows:

1 July 20x4	S\$1: THB 24.9882
1 January 20x6	S\$1: THB 25.3165
1 July 20x6	S\$1: THB 26.0708
31 December 20x6	S\$1: THB 24.7671
28 April 20x7	S\$1: THB 24.6912
31 October 20x7	S\$1: THB 24.3858
31 December 20x7	S\$1: THB 24.3177
Average for 20x6	S\$1: THB 26.2376
Average for 20x7	S\$1: THB 26.0095

**Exemplify
Question
Number**

5

Question 2 Part I required:

- (a)** Translate the Statement of Financial Position of Canopy Trading for the financial year ended 31 December 20x7 into Singapore Dollars (S\$), in accordance with SFRS(I) 1-21 *The Effects of Changes in Foreign Exchange Rates*. Prove the balance of the translation reserve to the nearest dollar as at 31 December 20x7.

(11 marks)

Note: You may want to use the spreadsheet tool in Exemplify to prepare your answer. You are required to copy your answer in the spreadsheet tool to the Exemplify answer window.

Part II

Mckinston Ltd (Mckinston) is a local company listed on the Singapore Exchange and is primarily engaged in the manufacturing and sale of construction equipment. Its Sales Director, Sam Leong, and the Finance Director, Freddie Soh (who is a member of the Institute of Singapore Chartered Accountants), were at a lunch meeting with Matthew Chang, the Managing Director of its major and long-time customer, Soil-Builder Pte Ltd (Soil-Builder). The purpose of the meeting was to discuss the future direction of their business relationship.

During the meeting, Matthew shared that Soil-Builder was facing cash flow difficulty due to an unsuccessful investment. Matthew further stressed that if unresolved, they might have to cancel their future orders.

When Sam and Freddie returned to their office after the meeting, Sam called Freddie to sound him out, “About what Matthew said earlier, since Soil-Builder had brought us so much business in the past ten years, let’s do them a favour. First of all, we can increase their credit limit to a higher amount. Please speak to the Credit Department on this. Another more practical solution would be to let them know our significant earnings growth for the upcoming quarter announcement so that they can finally invest in something right and hopefully this will help to improve their cash flows.”

When Sam sensed Freddie’s resistance to his suggestions, he explained his rationale, “Look, Soil-Builder is our major customer. We really don’t wish to lose their business, do we? If they cancel orders now, our sales for the year will suffer, my department’s commission and the bonus will be affected, so will our whole company’s. By helping them invest in our company, we are helping them to overcome their financial difficulty, and we are also helping ourselves. Don’t you think so?”

**Exemplify
Question
Number**

Question 2 Part II required:

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

- 6** **(a)** Identify TWO fundamental principles which are being threatened from the perspective of Freddie, the Finance Director.

(4 marks)

- 7** **(b)** Describe TWO threats that could compromise, or be perceived to compromise, Freddie's compliance with the fundamental principles identified in **(a)** above.

(4 marks)

(Total: 19 marks)

Question 3 – Part I & Part II

Part I

Bella Pte Ltd (Bella), which is wholly owned by a company listed on the Singapore Exchange, Elite Runway Ltd (Elite), holds the following investments:

- 10% of the shareholding in Alliance Inc (Alliance)
- 25% of the shareholding in Citron Clothing Pte Ltd (Citron)
- 55% of the shareholding in Diva Fashion Corp (Diva)

Bijan Meyer is the Chief Executive Officer of Bella. He is also the independent Director of another company, LuluLemon Pte Ltd (LuluLemon), and owns 60% of the shareholding in Alliance.

The following events took place during the financial year ended 30 June 20x9:

- Bella acquired 5 million out of 7.5 million outstanding ordinary shares in Feline Design Corp (Feline).
- Due to renovation of its own premises, LuluLemon leased office space from Bella for six months at \$50,000 per month.
- Bella settled a bank loan of \$1 million on behalf of Citron on 1 January 20x9. It was agreed that the amount would be repaid by Citron to Bella by 31 December 20x9 at an interest of 2.5% per annum.
- Bella rendered management and accounting services to Diva at a monthly fee of \$20,000.
- Bijan Meyer received annual salaries and bonuses from Bella, as well as employee share options from Elite.

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.

**Exemplify
Question
Number**

Question 3 Part I required:

Apply SFRS(I) 1-24 *Related Party Disclosures* when answering the following:

- | | |
|-----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 8 | <p>(a) For the financial year ended 30 June 20x9, explain if the following companies are related parties of Bella Pte Ltd:</p> <ul style="list-style-type: none">(i) Alliance Inc(ii) Citron Clothing Pte Ltd(iii) Diva Fashion Corp(iv) Elite Runway Ltd(v) Feline Design Corp(vi) LuluLemon Pte Ltd <p style="text-align: right;">(6 marks)</p> |
| 9 | <p>(b) State the information and relationships that Bella Pte Ltd needs to disclose under SFRS(I) 1-24 <i>Related Party Disclosures</i> in its financial statements for the financial year ended 30 June 20x9.</p> <p style="text-align: right;">(4 marks)</p> |
| 10 | <p>(c) Briefly explain the importance of related party disclosures in financial statements.</p> <p style="text-align: right;">(4 marks)</p> |

Part II

Oceaneering Pte Ltd (Oceaneering), is engaged primarily in the provision of engineering services to global offshore, marine and energy industries. The operations in different countries serve different customers in their surrounding region and Management made strategic decisions by reviewing the performance and economic factors of each country. The accountant of Oceaneering conducted an impairment review for the financial year ended 30 June 20x8. Based on his assessment, the operations in different countries constitute different cash-generating units (CGUs). The table below shows the relevant information for the three CGUs as at 30 June 20x8:

As at 30 June 20x8	CGU		
	Singapore	Brazil	Norway
Net identifiable assets (i.e. property, plant and equipment) in \$'m	5,430	5,215	3,990
Goodwill in \$'m	520	320	365
Recoverable amount in \$'m	5,750	6,910	2,810

A laboratory in India supports all the research and development activities for the three CGUs, and it is not possible to allocate the net identifiable assets of India's laboratory, amounting to \$1,480 million on 30 June 20x8, using a reasonable and consistent basis to any of the CGUs.

As at 30 June 20x8, the fair value of Oceaneering business was \$14.75 billion, while the cost of business disposal and restructuring costs were estimated to be \$250 million and \$825 million respectively. The value-in-use of the business was assessed to be \$14.2 billion on the same day.

**Exemplify
Question
Number**

Question 3 Part II required:

Apply SFRS(I) 1-36 *Impairment of Assets* when answering the following:

11

- (a)** Perform an impairment test for Oceaneering Pte Ltd, stating the allocation of any impairment loss and total impairment loss recognised for the financial year ended 30 June 20x8. Show all workings.

Note: You may want to use the spreadsheet tool in Exemplify to prepare your answer. You are required to copy your answer in the spreadsheet tool to the Exemplify answer window.

(14 marks)

(Total: 28 marks)

Question 4 – (a) and (b)

During the Board meeting on 30 June 20x8, the Management of Frasers Properties Pte Ltd (Frasers), a real estate company in Singapore, resolved to invest in two buildings in Vietnam. Building A, costing US\$1,780,000 would be used as Frasers regional office, while Building B, costing US\$1,650,000 would be leased out for retail purposes. Frasers had committed to transact in cash terms on 30 June 20x9 for the purpose of these acquisitions.

To hedge against the appreciation of the United States dollar (US\$), Frasers entered into a forward foreign exchange contract on 30 June 20x8 for settlement on 30 June 20x9 to buy an amount of US\$ equivalent to the total acquisition price of the two buildings at the exchange rate of US\$1 = S\$1.372. The table below shows the movements in exchange rates:

Date	Spot exchange rate (US\$: S\$)	Forward exchange rate for settlement on 30 June 20x9 (US\$: S\$)
30 June 20x8	S\$1.361	S\$1.372
30 September 20x8	S\$1.365	S\$1.369
31 December 20x8	S\$1.380	S\$1.385
31 March 20x9	S\$1.395	S\$1.400
30 June 20x9	S\$1.408	S\$1.408

Frasers designated the change in fair value of the forward foreign exchange contract based on the forward rate as a hedge against the expected cash flows of the planned acquisition based on the forward rate. On 30 June 20x9, the acquisition of the two buildings, as well as the forward foreign exchange contract, was settled.

Assume that the hedge is effective under Singapore Financial Reporting Standard (International) (SFRS(I)) 9 *Financial Instruments* for financial reporting purposes and that there was no change in the acquisition price of the buildings. Ignore (i) time value of money, as it is not expected to be significant; and (ii) tax effects, if any, arising from the above transactions.

**Exemplify
Question
Number**

Question 4 required:

12

- (a)** Identify and briefly explain the type of hedge accounting that Frasers should apply for the acquisition of the buildings.
(2 marks)

13

- (b)** Apply SFRS(I) 9 *Financial Instruments* and prepare the journal entries to record the events and transactions as at 30 September 20x8, 31 December 20x8, 31 March 20x9 and 30 June 20x9. Show all workings.

Present your answers in the following format:

Transaction date

DR Account Name xxx

CR Account Name xxx

(Narration for Journal Entry)

Note: You may want to use the spreadsheet tool in Exemplify to prepare your answer. You are required to copy your answer in the spreadsheet tool to the Exemplify answer window.

(14 marks)

(Total: 16 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.
Prepare / Present	Prepare (or present) requires you to produce your answer using a specific format. For instance, “ Present an extract of the notes to the accounts for ...” or “ Prepare all the relevant journal entries for ...”.
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 Singapore CA Qualification examinations, 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.